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JPRS-CEA-86-030

21 March 1986

China Report

ECONOMIC AFFAIRS

19980826 104

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21 March 1986

CHINA REPORT

ECONOMIC AFFAIRS

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ECONOMIC PLANNING

DOMESTIC MARKET TRENDS FOR 1986

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 8 Jan 86 p 3

[Text] This year we begin our seventh 5-year national economic plan. The entire Seventh 5-Year Plan will be a crucial stage in the development of our economy, a time when the Chinese people, instead of having just enough to eat and wear, will begin to enjoy a comfortable standard of living. As agricultural and industrial production further develop and living standards keep rising, the market at home will continue to be the picture of prosperity, vitality and stability that it has been.

According to quantitative analysis forecasting, social commodity retail sales nationwide will grow at least 16 percent in 1986 compared to 1985 (estimated to be 24 percent). The growth rate of consumer goods purchasing by social groups will decline and may even drop below that of consumer goods purchasing by private citizens. The retail sales of means of agricultural production will slow down. As far as urban and rural consumption levels are concerned, consumer goods retail sales in the countryside will continue to outpace retail sales in urban areas. The slackening pace of social commodity retail sales can be attributed to the macroeconomic control that the state has continued to impose on infrastructural projects, credit, foreign exchange and consumption funds, and to the moderating growth of industrial production. Nevertheless, because of other growth factors, the potential of the domestic market remains strong in 1986 and the market will expand in a healthy, stable way.

Judging by the movements of consumer goods purchasing power, retail sales of articles of daily use will grow faster than those of clothing, which, in turn, will exceed those of food. Consumption of food, clothing, daily consumer goods and fuels will increase 12.7, 23.8, 24.1 and 16.8 percent respectively over 1985. Their respective shares of overall consumption are: food, 51 percent; articles of daily use, 25.5 percent; clothing, 20.6 percent and fuels, 2.9 percent.

Looking at the consumption trends for food, clothing and articles of daily use, one sees a greater emphasis on the nutritional value, ease of preparation and quality of food, plus a tendency toward a more varied diet. Of the overall composition of food, staples will account for a declining share while non-staples will become more and more important, and expectations are that the consumption of such low-fat, high-protein, multi-vitamin items as beef, mutton, poultry and eggs will increase substantially. As far as clothing is

concerned, the trend is toward accessories, coordinates, fashionable styles, unique designs, and elegant colors. Woolen fabrics and silk will remain popular, the demand for pure cotton fabrics will bounce back and woolen knitwear will sell well. Among articles of daily use, it is the attractive, upscale, and electric items which will be the pacesetters. Bicycles, watches, sewing machines, and radios have reached a saturation point. The trend in these lines of products is toward trading up. When people purchase daily consumer goods, they will more and more think of goods which can help reduce household chores and enrich material life. High-quality durable consumer goods such as television sets, refrigerators, washing machines, radio cassette recorders, and cameras will continue to enjoy robust sales as demand soars.

According to projections based on relevant data, social commodity purchasing power will grow at least 15 percent over 1985. Together with excess purchasing power accumulated over the years, the increase will put the market under intense pressure. The following circumstances will appear in the market this year and should be duly noted by the departments concerned.

The gap between purchasing power and commodity availability is still poised to widen. According to forecasts by provinces like Liaoning, Jiangsu, and Henan, the discrepancy between the growth of commodity supply sources and the increase of social commodity purchasing power will be even greater than that in 1985. Therefore, we must give top priority to successfully organizing the production of popular light industrial and textile goods, securing the supply sources of market commodities, ensuring normal consumption by the people, and speeding up the withdrawal of currency from circulation. Owing to the shortages and rising prices of raw materials and other factors, the producers and retail outlets of small commodities have suffered a sharp decline in profits. In the absence of government support, the market for small commodities will wither.

A massive effort must be made to arrest the upward trend of consumer goods prices. Numerous industries today are pressing for price increases mainly because raw materials and labor are more expensive while profits have fallen. In the countryside, peasants in some localities have gone into industry and business and reduced the number of acres devoted to vegetable cultivation. The prices of non-staple food and certain consumer goods have also shown upward signs. The authorities concerned should adopt a variety of economic mechanisms and administrative interventions to stabilize such prices.

As the proportions of the various economic forms continue to change, we must take pains to help state-owned commerce and stores run by supply and marketing cooperatives operate as the main artery of commerce. In recent years, the retail sales of state-owned businesses and stores operated by the cooperatives have been dropping steadily as a share of overall retail sales, accounting for 63 percent in 1985, down from 68 percent in 1984. Meanwhile individual-run businesses have come to account for a growing share. Projections are that the shift in the shares of the different economic types will continue in 1986. Accordingly, full attention must be paid to the question of how state-run commerce and the supply and marketing cooperative economy can function as the centerpiece of the socialist commodity economy to stabilize the market and curb price increases.

12581

CSO: 4006/683

ECONOMIC MANAGEMENT

SHANDONG'S ECONOMIC DEVELOPMENT DISCUSSED

Jinan DAZHONG RIBAO in Chinese 3 Nov 85 p 1

[Article: "Shandong's Proportionate Economic Development in 1984"]

[Text] Editor's note: To enable the broad masses of readers to deepen their understanding of the guidelines of the party national conference and fully understand Shandong's fine political and economic situation, starting from today this paper will continue to publish pertinent materials for everyone to read for reference so as to better organize the people throughout the province to cherish and develop the fine situation and make new achievements with greater efforts. [End of editor's note]

Overall Bumper Harvest in Agriculture: The output of grain, cotton and peanuts set the highest record ever. The gross agricultural output value which registered an increase of 15.4 percent in the year before last amounted to 31.6 billion yuan last year, showing an increase of 21.4 percent over the year before last. The rural structural reform and the reform of the production structure being developed in depth had helped to rationalize the production structure and made it more diversified and better run.

Good Momentum of Steady Growth Emerged in Industry. Shandong's industrial production had advanced fairly fast in the course of the economic structural reform which had basically brought about simultaneous improvement in both results and speed. The gross industrial output value for the whole year came to 45.62 billion yuan overfulfilling the fiscal plan by 8.6 percent and showing an increase of 12.5 percent over the preceding year. The work of developing new products had been further strengthened, more than 1,000 kinds of new products had been successfully trial-produced in the entire year, of which 84 kinds had filled blank spots in the country. Through Shandong 175 products were rated by the ministry as fine-quality products, 570 items were rated fine-quality products by the province. It was a year that produced the most fine-quality products with 38 winning the state quality awards.

A New Situation also Emerged on the Capital Construction Front: Key construction projects were further strengthened as the construction structure became more rationalized. The proportion of investment in energy, transport, and scientific, technological, cultural, and educational projects increased to some extent, large and medium projects planned were finishing faster than in

the year before last. The construction of Shijiu harbor, the Yanzhou-Shijiachuang railway, and the ethylene plant with a capacity of 300,000 tons were all being stepped up. The Yantai synthetic leather plant which was completed and put into operation had not only provided the light industries with more and more raw materials but also promoted the development of some local industries.

New Progress in Opening to the Outside World: A great deal of work was done and gratifying progress made in importing foreign capital and technology and joint ventures and in building the Qingdao and Yantai economic and technological development zones. During the first half of last year, Shandong started 383 technological projects with imported foreign capital totaling more than \$220 million. It was estimated that Shandong's gross value of export commodities in foreign trade last year increased by more than 10 percent over the year before last.

12662

CSO: 4006/674

ECONOMIC MANAGEMENT

TIANJIN'S RURAL INDUSTRY SUPPORTS URBAN INDUSTRY

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 1 Jan 86 p 1

[Article by Zhang Xiaojian [1727 2556 1696]: "By Integrating Urban with Rural Areas and Advancing Side by Side, Tianjin's Township and Town Industries Have Become the Strong Helpers of Urban Industries"]

[Text] By building around cities and following the road of integrating urban and rural areas, the township and town enterprises of Tianjin Municipality have continued to make steady progress in 1985. By the end of October, industrial enterprises at township and village levels have realized more than 2.55 billion yuan in output value. It is expected that it will reach 3 billion yuan this year, an increase of approximately 30 percent over last year.

Tianjin Municipality has a history of more than 20 years in developing industries by integrating the urban with rural areas. Since 1979, by widely distributing spare parts and components in a systematic and organized way, the output of "Flying Dove" brand bicycles and "Peony" brand sewing machines produced by the Tianjin Municipal Bicycle Industrial Co. and the Sewing Machine Industrial Co. has increased markedly in successive years and achieved fairly good social effects. Following the handing down of CPC Central Committee Document No 4 in 1984, some new tendencies in coordinated development of urban and rural industries have appeared with the concern and support of the municipal CPC committee and the municipal government:

1. Township and town industries have, on the whole, been included in the overall plan of Tianjin Municipality for industrial development. While drawing up long-range plans and arranging for industrial production plans, the municipal economic and planning commissions have regarded township and town industries as an important component of the entire industrial production system and made overall planning and arrangement. In 1984, in drawing up trade development plans, the municipal No 1 machinery bureau, the textile bureau and the silk company arranged for 70 comparatively large industrial projects in the countryside in line with the principle of integrating urban and rural areas which with an investment totaling 270 million yuan, are capable of creating an annual output value of 710 million yuan when all are put into operation.

2. Rapid progress has been made by enterprises jointly operated by industry and agriculture. Enterprises jointly operated by industry and agriculture in

Tianjin Municipality came into being in 1979. By the end of 1984, 5 years later, the entire municipality had only 52 enterprises jointly operated by industry and agriculture. More than 70 of these enterprises were developed by the end of October last year after the municipal departments concerned relaxed policies and extended active support. The municipal No 2 light industrial bureau had regarded the road of integration as the only way to reinvigorating the light and textile industries. During the first half of last year, they teamed up with the countryside in setting up jointly operated enterprises of clothing, shoes, drawing instruments, barbershop appliances, and handicraft articles. Exploiting the potential of producing piece goods, the textile system in the municipality set up six more new enterprises jointly operated by industry and agriculture in addition to the existing ones to produce products in short supply such as windbreakers and raincoats, Western-style clothes, and sports wear. Beginning last year the municipal No 1 machine-building system readjusted the existing processing outlets by tightening integration. Since last year it has set up more than 20 township and town branch factories or affiliated factories. The branch accordion factory jointly established by Xinzhuang Town in the southern suburban district and the Tianjin Accordion Factory has resumed production of the "Parrot" brand foot-pedaled organ, a brand name product in Tianjin, which won first place recently at the national fine products appraisal meeting called by the Ministry of Light Industries.

3. As a result of the dissemination of spare parts and components and specialized coordination in work, some new specialized production systems of urban and rural integration are taking shape. The Municipal Automobile Industrial Co. has 119 township and town processing outlets yielding an annual output value of more than 30 million yuan. Since last year it has organized more than 20 township and town enterprises into a coordinated operation in producing major components for front and rear axles, trunks and floorboard assembly, thus laying the groundwork for increased production next year. The southern suburban district has organized 18 township and town enterprises into an automobile parts company which produced 130 front and rear axles. With the help of technical personnel of municipal departments concerned, it built up its productive capacity and last year trial-produced 1,000 units which basically met the quality standards. The cost of producing cast and forged items by township and town enterprises is one-third lower than that produced by other industries in the municipality and the product quality is guaranteed. Over half of the cast and forged items of the municipality's automobile industry at present is done by township and town enterprises. The municipal automobile gears plant produces 15,000 sets of automobile gears a year and it undertakes processing by machinery only while the processing of all cast and forged items is done by township and town enterprises.

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ECONOMIC MANAGEMENT

JIANGSU RURAL ENTERPRISES STRESS PRODUCT QUALITY

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 1 Jan 86 p 1

[Article by Sun Shuyang [1327 0647 7122]: "Shifting Focus from Quantity to Quality, Jiangsu's Township and Town Enterprises Review Experience and Go Forward in Triumph"]

[Text] Last year, in spite of tight macroeconomic control by the state, Jiangsu's township and town enterprises surmounted hardships brought about by credit and prices by adhering to the principle of acting according to one's capability and doing one's utmost in line with local conditions and giving systematic guidance and still achieved noticeable economic results. According to statistics, from January to November, the industrial output value of Jiangsu's enterprises at the township and village levels amounted to 32.9 billion yuan and was expected to exceed 36 billion yuan in the entire year, an increase of 60 percent over the preceding year; the gross output value of Jiangsu's township and town enterprises was expected to exceed 40 billion yuan in the entire year.

The year 1985 represented a period in which Jiangsu's township and town enterprises shifted their emphasis from more quantity to improved quality. In that year, Jiangsu's township and town enterprises had concentrated their work mainly in the following four areas:

1. Overall popularization of the "one contract and three improvements" experience. At present 90 percent of the enterprises in Jiangsu have signed contracts for output-related systems. Starting by straightening out the guiding ideology of reform, the administrative departments have also done a great deal of work in adequately extending the contractual period, strengthening supervision and management, and correctly handling the relations between the state, the collective, and the individual as well as the relations between benefits of engaging in regular work and in farming as so to add vitality to the enterprises reported brisk production and sales and made good progress in production and management.

2. Concentrating efforts on "three ups and one elevation". They included the fundamental work of raising quality, management, and technology and elevating economic results in their daily agenda. Last year, Jiangsu's township and town enterprises administrative bureau popularized Shazhou County's "three ups and

one elevation" experience and conducted a thorough quality inspection in the township and town enterprises turned out more than 200 fine-quality products at the municipal level, more than 20 fine-quality products at the provincial level, and a number of fine-quality products cited by the ministry, together with products that won international prizes.

3. Strengthening "four relationships and one promotion." This means developing the lateral relationships between funds, goods and materials, technology, and personnel, and promoting rational circulation and a setup for better operations. Township and town enterprises in Jiangsu started to organize a supply and marketing network, intellectual training, technology market, scientific and technological services, and other work last year to improve the substance and form of lateral relations and accelerate the circulation of goods and materials, technology, and funds. Wujin County has established relations of coordination with more than 200 units in 23 provinces, municipalities, and autonomous regions and set up 10 raw material and fuel bases to give relative stability to the production and operations of township and town enterprises.

4. "Turning the five wheels simultaneously" by paying attention to developing the household, joint household, and cooperative enterprises and giving priority to setting up township and town enterprises on the "two households" basis before gradually moving toward integration. Huaiyang City has followed the road of achieving common development mutually in multiple levels and forms with the "two households" as the foundation and the township and town enterprises and as the leading force and backbone. Yangzhou City has set up administrative organs to direct the management of enterprises run by the "two households." It is estimated that the output value of the final three levels of enterprises [the household, the joint household and cooperative enterprises] in the whole year will exceed 2 billion yuan.

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CSO: 4006/674

ECONOMIC MANAGEMENT

JINGJI GUANLI ON ECONOMIC LEVERS, LEGISLATION

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 11, 5 Nov 85 pp 4-7

[Article by Yang Chuntang [2799 2504 1016]: "The Relationship Between Economic Levers and Economic Legislation in Macroeconomic Management"--edited by Lin Daojun [2651 6670 0689]]

[Text] Economic measures and legislative measures are the two basic measures a socialist nation uses in managing its economy. In economic life, these two major measures are manifested as economic levers and economic legislation. Facts have proven that economic measures and economic legislation are very closely related. Today as the reforms of the economic structure are continually deepening, the analysis of these two major regulatory measures in economic life and exploring specific measures for the coordinated use of the two major regulatory systems has great theoretical and practical significance for scientifically and effectively achieving state macrocontrol of the economy in the new period.

I. The Objective Basis for Using Economic Levers and Economic Legislation

Economic levers come under an economic category, while economic legislation comes under a legal category. The former is generally manifested as a value form, while the latter is generally manifested as a normative form. Seen from the process of economic development in developed countries, economic levers and economic legislation are very closely linked with the development level and the stage of the socialization of production.

During the free competition period of capitalism, economic levers automatically play a role in economic life, restricting economic activities in various respects. The most dynamic economic levers are pricing, profits, interest and wages, and the main users of these economic levers are the bourgeoisie, that is, the capitalists. Following the development of the socialization of production, the negative roles of automatic regulation of the market economy became clearer daily. Following economic crises and the damage to social productive forces, the capitalists demanded that the state, which represents their overall interests, act to intervene in the economy to alleviate economic and social contradictions which the capitalists themselves could not resolve. At this time, economic legislation formulated to adjust capitalist economic relationships appeared, and capitalist states had to use economic

levers to regulate socioeconomic life. Economic levers thus began to take on a state color.

A socialist economy is established and developed on the basis of public ownership of the means of production. A socialist state's economic management is greatly superior to that of a capitalist state. But for a long time we mistakenly understood a socialist state's economic function as the exercising of vertical administrative control from top to bottom over all specific economic activities in the society. This led to an ossified economic system greatly unsuited to the development of productive forces, resulting in the socialist economy--which should have been bustling with activity--losing to a great extent its due vigor. Following reform of the rural economy, our nation began economic structural reforms which focused on urban areas. Traditional centralized-power management forms have begun to change into planned commodity economy forms. At a time when economic management forms are changing tracks, however, some new questions which demand answers have arisen: Once the administrative relationship between the enterprises and the state is weakened, how are we to guarantee the state's macrocontrol over economic life? Once the scope of mandatory planning is reduced and the proportion of guidance planning and market regulation increases, how are we to guarantee the realization of state plans? Once enterprises' autonomy increases, how are we to safeguard the legitimate interests of enterprises and how are we to ensure that the microeconomic decisionmaking of enterprises does not harm the society or individuals? Once the horizontal relationships between enterprises develop, how are the contradictions and disputes which are produced by these relationships to be handled? And so on.

Recently, a leading cadre clearly pointed out that after the reforms of the economic structure, "If the state is to be able to control vigorous enterprises, it will have to exercise management from the macroeconomic level. To achieve this, things must be approached from two angles: First, it is important to do well in economic legislation, and second, it is necessary to use economic levers to provide guidance. Through these two avenues, it will be possible to manage things without creating confusion." This is a scientific summation of the strategic changes to be implemented in our nation's economic management. The question now is, under conditions of economic structural reforms, why does the state need to use economic levers and economic legislation to realize macromanagement of the economy?

I believe that stressing the role of economic levers and economic legislation in macroeconomic management is primarily determined by the objective facts of our nation's planned commodity economy. A socialist society must be a society in which the commodity economy achieves unprecedented development. In the overall socialist historical period, the development of the social productive forces and even social progress is directly and closely linked with the development of the commodity economy. In many of today's socialist nations, which were originally economically backward countries, this task of developing the commodity economy is especially pressing. The full development of the commodity economy inevitably requires that economic levers which reflect the commodity-money relationship are fully enlivened, demands that people act in accordance with objective economic patterns, and master and use economic

levers to guide economic life. Enlivening economic levers is also beneficial in promoting the development of the commodity economy. In another respect, the socialist economy is a planned commodity economy, a commodity economy in which control, standards and management are exercised from the macroeconomic level. The interests of socialist commodity producers are basically identical with the interests of the state and the whole society. When socialist commodity producers seek relatively independent economic interests, they are conditioned by not being able to harm the interests of the state, the society or other people, their economic activities must abide by certain norms and standards and their vigor is restricted by state policies, laws and plans. Thus, economic legislation formulated by socialist states is a legislative manifestation of a planned commodity economy, and is the basic means by which the state exercises control over the economy. Following the increased breadth and depth of the socialization of production, it is especially true that economic life cannot be disorderly and unsystematic, and that it is necessary to establish a scientific order. Also, it is inconceivable that the establishment of this scientific economic order could be divorced from economic legislation. Having an order in economic life conforms not only with the interests of the state and of the society, but also with the interests of every relatively independent commodity producer. It is the condition under which commodity producers can ensure that their legitimate interests are not violated in the commodity economy.

Also, stressing the role of the two measures in the macroeconomy stems from changes occurring in our economic management system. If we take the pricing management system as an example, planned prices in the traditional sense are partially retreating from the stage of history, and are being replaced by floating prices and market prices. We are now in the process of changing from vertical centralized-power administrative management to a combined vertical and horizontal network-style economic management, from placing stress on materials management to placing stress on pricing management, and from direct management to indirect management. This will be especially true after enterprises' autonomy is expanded and they become economic entities with independent economic interests and sole responsibility for their own profits and losses. The state will be unable to interfere in the direct operational activities of the enterprises and will control the economy from the macroeconomic level. In another respect, as those horizontal relationships widely developed through commodity exchange are being greatly strengthened, the original administrative measures are nearly powerless in dealing with the contradictions and disputes arising from economic relationships which span departments, span industries, span regions, and even span nations. All of these require that the state's methods for managing the economy must be changed. That is, they must be changed from the former system of mainly relying on administrative measures to a system which mainly relies on economic measures and legislative measures.

From this, it can be seen that under a socialist system, the planned commodity economy is the economic basis for the application of economic levers and economic legislation. The existence of the economic functions of a socialist state is the political basis for the application of economic levers and economic legislation. Also, a planned commodity economy which is managed

through economic levers and economic legislation is an objective demand for scientifically and effectively realizing state macrocontrol of the economy after the reform of the economic structure.

II. The Complementary Roles of Economic Legislation and Economic Levers in Economic Life

A socialist state realizes its economic functions through economic levers and economic legislation. Not only do these two major measures have their own special function in economic life, but also a complementary role in economic life which could not be carried out if either were lacking.

First, let us discuss economic levers. Because a socialist economy is a planned commodity economy and there exist independent economic interests of different commodity producers, it determines that the state must exercise directional control over the economy by economic levers which directly reflect economic interests. This is because: 1) Economic levers can easily more directly manifest the commodity-money relationships in actual economic life; 2) the use of economic levers by the state to regulate the economy is a type of regulation which is not direct but which still has strong influence on the enterprise economy; 3) the use of economic levers provides enterprises with a considerable amount of choice and motivation. For example, in the use of credit at different interest rates, enterprises have a relatively large choice. This characteristic determines that, in their effects on economic life, economic levers are mainly inductive. That is, the state, by regulation through economic levers, changes or shapes the external economic environment for enterprises. It creates economic conditions which are either beneficial or harmful, and guides and encourages or restricts enterprises, in the changed or newly formed operational conditions, to make selective decisions which match their own interests. Thereby, microeconomic and macroeconomic coordination is automatically achieved and contradictions between microeconomic decisions and state interests are avoided. It can be seen that economic levers have the three functions of guiding, promoting and restraining people in their economic lives. These three functions all have origins in material interests. Material interests are the core and the soul of economic levers and the motivating force in the action of economic levers.

Next, a look at economic legislation. Economic legislation is by nature the state's legislative standards for adjusting economic life. Its role in economic life is not manifested as guidance, but as a type of supra-economic coercion by the state. Its core is not material interests, but a statutory, defined relationship of rights, responsibilities and obligations. Although some legislation clearly involves material interests, the legislation only affirms and safeguards the relationships of these interests. At the same time, economic legislation is not as flexible as economic levers, and it manifests a certain stability. Similarly, in a planned commodity economy, economic legislation is indispensable. This is because: 1) Economic legislation is the state's conscious legislative adjustment of economic relationships and is, in itself, entire and complete. 2) It is a standard for actions, hence clarifies qualitative and quantitative stipulations in respect of what is legal, what is illegal, how economic activities should be carried

out, on what conditions they should be carried out, and what punishments violators should be subject to. It thereby provides rules and standards by which people are to carry out their economic activities. 3) Economic legislation is the product of pooled wisdom. It therefore excludes and avoids the subjective arbitrariness of individuals. 4) Economic legislation provides legal weapons for resolving economic contradictions and economic disputes created by horizontal relationships. These characteristics of economic legislation determine that it has a decisive role in the economic life of society. As the economy becomes more open and more enlivened, economic legislation becomes obviously more important. It can be said that if we do not borrow from the strength of the superstructure and do not rely on the coerciveness of legislation, it will basically be impossible to enliven the economy without giving rise to disorder. This is an important law in economic life.

In brief, economic levers and economic legislation both have their own special role. Economic life requires guidance yet also needs coercive management. If there were no rules, there would be no limits and if there was no guidance, then economic life would lose its direction and power of motivation.

III. The Relationship Between Economic Levers and Economic Legislation

Economic levers and economic legislation have a very close relationship.

1. The state's use of economic levers and formulation of economic legislation are both the result of the state recognizing and using objective economic laws, and neither can violate objective economic laws. They differ only in that they manifest the economic laws in different forms.

2. Economic levers and economic legislation permeate each other in actual economic life. For example, in pricing and economic management legislation, interest and financial management legislation, foreign exchange and foreign exchange legislation, the contents of each are related. Some economic levers are actually economic measures which have been put in a legislative form. For example, in the payment of taxes, the taxpayer must fulfill his obligation as stipulated by the law. This is a legal activity. At the same time, when the state is using taxation through changing, reducing, alleviating or exempting tax types, tax items and tax rates to adjust the economy, it is using economic levers.

3. Economic legislation provides legal guarantees for the scientific use of economic levers. Because economic levers are mostly linked with the commodity-money relationship, their use will inevitably bring a certain blindness. This requires that we formulate scientific stipulations for the use of economic levers, so that the use is governed by rules and so that there is legislation on which the use can be based. In this way, we can avoid blindness occurring in the use of the levers and prevent the use of an economic lever by responsible departments or individuals to engage in illegal activities.

4. The roles of economic levers and economic legislation have a basically identical direction. Under the conditions in a socialist state where economic functions are being continuously perfected, both promote the normal and stable development of social productive forces, inspire the raising of economic and social benefits, and accelerate the continuous progress of technology. Nevertheless, there are places where the two are not coordinated. These are what we generally refer to as "the rational but illegal" or "the legal but irrational."

5. Economic levers and the use of mechanisms and feedback mechanisms of corresponding economic legislation are under the same organic system. Taking interest as an example, banks are the major users of this financial lever, and also the main executive department in terms of economic legislation. Problems in the use of economic levers and economic legislation are mainly fed back through the banking system. This phenomenon of one entity with two tasks forms the objective basis for coordinating the two measures. Seen from another angle, if we do not have a scientific grasp of objective economic life, it leaves an opportunity for subjective arbitrariness.

6. Both economic levers and economic legislation are state measures for controlling the economy under conditions of dispersed autonomy. However, all sorts of economic supervision, such as financial supervision, statistical supervision, tax supervision, and market supervision are directly linked with economic laws, regulations and rules. If we do not have appropriate norms set down by economic legislation, it will not be possible to carry out the various types of economic supervision. Speaking figuratively, the relationship between the economy, economic levers and economic legislation is like the relationship between a train's carriages, their wheels and the tracks.

IV. How Are We To Coordinate the Relationship Between the Major Regulatory Measures?

It must be recognized that our nation still does not have the full conditions for scientifically utilizing economic levers and economic legislation. This is mainly manifested in the considerable number of cadres (including some leading cadres) in leading economic work that have not truly recognized the importance of economic levers and economic legislation. They are not familiar with or do not feel accustomed to these major measures. The consistency of the state in its use of economic levers to regulate the economy has not been recognized and the role of the pricing, interest rate and taxation economic levers has not yet been fully brought into play. The phenomenon of contradictions between the various economic levers exists to various degrees, a large number of urgently needed economic legislation such as a banking law, an enterprise law, and a bankruptcy law have not yet appeared, while rules for economic life which are scientific and are coordinated with economic life have not yet been established and perfected. There is a lack of coordination between the two major regulatory measures of economic levers and economic legislation. And so on. All of these require that not only must we resolve in theory the question of how macroeconomic control is to be carried out, but also resolve in practice the questions of what is to be controlled and how it is to be controlled. We particularly have to coordinate the relationship

between the two major regulatory measures. In this, we need to pay attention to the following aspects:

1. Economic levers must be used and economic legislation must keep pace. That is to say, current economic levers are quite flexible but legislation related to them is not coordinated. This is a question which must be paid much attention in the current reforms. For example, the use of stocks and bonds is already quite brisk and many enterprises use stocks and bonds to resolve their problems in terms of a lack of funds. Yet, there is still no national stocks and bonds legislation which goes along with this leverage. This situation where legislation lags behind can easily lead to disorder occurring after the economy is opened up. It is therefore necessary to speed the work of formulating economic legislation which matches up with economic levers. If the central authorities are unable at present to do this, then the localities can do it at first. If specific legislation cannot initially be enacted, then rough legislation should be drafted first.

2. We must pay attention to resolving the "legal but irrational" or "rational but illegal" problems. In a period of sudden changes in economic relationships, it often happens that the economic relationships change, but the applicable legal standards do not, resulting in the irregular phenomena mentioned above. Thus, we must take as the standard whether something is beneficial to developing the social productive forces or not, so that legal relationships and economic relationships are coordinated. Those outdated and old-fashioned legal standards which obstruct the development of the productive forces must be removed with firmness. Those which should be revised or supplemented should be included in economic legislative plans and revised in a timely way.

3. We must pay attention to coordinating the relationship between the system of economic levers and the system of economic legislation. The common characteristic of economic levers and economic legislation is their systematic nature. Hence we must not only ensure that economic levers and economic legislation are coordinated, but must also see to it that the two regulatory systems are coordinated; and not only ensure that the two systems are coordinated at the central level, but also that they are coordinated at the local level. This is the key to ensuring that macroeconomic regulation forms a single entity.

4. We must plan, in an overall way, the balancing of contradictions which occur in the feedback processes of the two measures. In the use of economic levers, contradictions with related economic legislation may occur; and in the application of economic legislation, some contradictions with economic levers may be encountered. This requires that responsible departments in their economic activities feed back in a timely way two types of information, and coordinate and iron out the relationship between the two.

5. We must study how to comprehensively utilize economic levers and economic legislation. In practice, we must gradually master the patterns in using the two measures and strive to master how to comprehensively utilize the two measures. We must pay attention to comparing which measures are most

beneficial under which conditions, and under which conditions it is most beneficial to use the two measures. We must not only understand the rationality of economic actions, but also their legality. We must study how to use the two measures to safeguard legitimate interests so that our economic management staff can gradually become experts in both economics and law.

6. We must pay attention to studying the characteristics of the roles of the two measures during the period of economic structural reforms. We are at present in a period where the old economic system is changing into the new. For quite a long time to come, the role of administrative measures cannot be ignored. Hence we must organically link up the economic, legal and necessary administrative measures. In areas which are gradually opening up, economic and legal measures must be used to prevent and overcome the blindness of regulation by market mechanisms. Economic levers which are used in implementing guidance planning and regulation by market mechanisms must be relaxed and, under the conditions of doing a good job of economic forecasting, must be flexibly used. Things which need to be restricted should be restricted through the creation of burdensome operational conditions. Those things, the development of which should be encouraged, should be encouraged by the creation of favorable conditions.

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CSO: 4006/642

ECONOMIC MANAGEMENT

PRC JOURNAL ON ECONOMIC LEVERS, INVESTMENT CONTROL

Beijing JINGJI GUANLI in Chinese No 11, 5 Nov 85 pp 8-12

[Article by Liao Renxing [1675 0088 5281]: "On Economic Levers and Investment Control"--edited by Lin Daojun [2651 6670 0689]]

[Text] 1. The contents of investment control

Investment in fixed assets is a matter which touches on a very wide area. It involves macroeconomy and also involves microeconomic activities. Under the conditions of a socialist planned commodity economy, it is necessary to implement the principle of managing the macroeconomy well and free up the microeconomy. This requires that, on the basis of seriously analyzing and fully researching the patterns of investment, we use economic levers to control investment, so as to achieve the goal of improving the benefits of investment.

The first component of macroeconomic control of investment is setting restrictions on the total volume of investment, that is the scale of social investment. Marx pointed out: "There are undertakings which take labor and the means of production over a long period, but which do not supply useful products during this period. Some other production sectors continually or regularly take in labor and the means of production over a year, but also supply means of livelihood and means of production. On the production basis of public ownership by society, it is necessary to stipulate to what scale the former is carried out so that it does not harm the latter." (Marx, "Das Kapital" vol 2 p 379) Here, "the former" refers to activities of investing in fixed assets, while "the latter" refers to active production. It can thus be seen that long ago Marx had raised the question of fixing a rational scale of investment. Comrade Chen Yun has, in accordance with the practice of our nation's economic construction, put forward a concise formula for controlling the scale of investment: "The scale of construction must be suited to national strengths." "Whether it is thus suited is the deciding factor in the stability of the economy." On the basis of our understanding, the "national strengths" which can be used in basic construction refer to the financial and material strengths after maintaining existing production and necessary consumption. They are the quantitative limit for the scale of total investment.

The second component of macroeconomic control of investment is the investment structure. The reason necessary to control the investment structure is

primarily the one pointed out by Marx: "If we are to achieve production quantities which accord with different quantities demanded, it is necessary to expend different and fixed quantities of total social labor. The necessity of this allocation of social labor in accordance with fixed ratios certainly cannot be eliminated by particular forms of social production. What these can change is only the outward manifestations. This is self-evident." ("Selected Works of Marx and Engels" vol 4 p 363) Also, socialized large-scale production, division of work and specialized coordination all require that there is coordinated development of the various sectors of the national economy. Thus, it is necessary to rationally arrange the overall distribution of investment.

The third component of macroeconomic control of investment is the economic benefits of investment. Marx believed that people in their economic activities must rely on consuming the lowest amount of strength in carrying out the material changes between themselves and nature. Investment benefits are the ratio between the amount of investment and the earnings from the investment. It is necessary to respect the demands of the law of value and thus not only is there a need to ensure that products satisfy demand, but also a need to consider prices, costs and other factors. Investment projects with good economic results should be selected and investment benefits used as a guide in arranging a rational scale of investment and a rational investment structure.

To sum up the above, the scale of investment, the investment structure and the investment benefits are the basic components of macroeconomic control of investment. These three components together form the restricting factors for the economic quantities of the most desirable investment: the scale of investment is the restricting factor for the economic quantities of the most desirable investment; the direction of investment is the restricting factor for the structural technology of the most desirable investment; and the economic benefits are the restricting factor for the goal of the more desirable investment. Only by exercising concurrent control over these three aspects will it be possible to best control, from the macroeconomic level, investment in fixed assets, and realize the best results.

For a long period, our nation's macroeconomic control of investment has depended on administrative measures, and has directly allocated total social labor among the various economic sectors and economic links. This sort of direct control is highly coercive and is able to guarantee the implementation of the state's construction plans and key construction projects. The drawback is that enterprises become appendages of administrative organs and lose their due decisionmaking power and independence. This does not conform with strengthening the vigor of enterprises. Under the conditions of a socialist planned commodity economy, if enterprises are independent commodity producers, solely responsible for their own profits and losses, and with independent accounting, then they will have to change according to market demands and will have to respond to pricing, profits, and other economic stimuli. Since enterprises have the right to allocate retained funds and the right to choose modes of operation, they will inevitably demand a certain amount of decisionmaking power in respect of investment.

Macroeconomic control and microeconomic enlivening are two aspects of the same thing. They are contradictory, but have a unity and are also preconditions for each other. Vigor stimulated in the microeconomy can create a force which is guided by the market and which can thus result in blindness. If this is not subject to guidance and control, it may easily jump off of the tracks of planning, and create an imbalance in the national economy. Consequently, as we are enlivening the microeconomy, we must exercise macroeconomic control over investment. The methods of control should no longer mainly depend on administrative measures, but should switch to control of economic efficiency. That is to say, we must use economic levers to regulate each sector of the national economy and the investment benefits of each, and thereby influence investment decisionmaking, control the scale of investment and guide the direction of investment and the investment structure. In this way, we will be able to ensure that investors make investment decisions which conform with state plans and social demands, and have the greatest investment benefits. This article will look at the economic levers of pricing, taxation and interest rates, and their integration in various respects, as well as examine their roles in macroeconomic control of investment.

2. The pricing lever and investment control

Pricing is the basis of all types of economic levers. Pricing, as the monetary manifestation of value, reflects the mutual exchange of labor between commodity producers and operators. In economic life, pricing has the following major roles: determines the production and consumption structures and embodies economic efficiency; regulates supply of and demand for commodities; and provides a means for assessing enterprises; economic results. In brief, the law of value is assisted by pricing in regulating, in an overall way, the economic activities of society, and the regulatory role of pricing permeates all aspects of macroeconomic and microeconomic activities.

As far as investment is concerned, one of the roles of the pricing lever is to regulate the supply of and demand for investment. The pricing lever acts on two levels in conditioning the supply of and demand for investment, thereby achieving a balance: First, in the pricing of goods produced through the investment, it conditions the desire of investors to invest. This is the most basic conditioning role of pricing. In accordance with the law of value, the level of prices will guide the scale of investment and the investment structure. If an enterprise, as a commodity producer, is to obtain profits it must, in accordance with estimated profits, determine into which areas and which sectors investment is to flow. At this time, the profit rates in the various sectors are indicators for investment. Also, profit ratios in each sector are closely related to price parity. Thus, pricing controls investment supply and demand and the investment structure through regulation of the rates of investment benefits. Second, the price of construction materials and equipment used also has a great influence on supply of and demand for investment. If the price of the materials used is high, the total project cost will be high. Consequently, the project investment benefits will not be good and investors will have no interest in investing. Conversely, if the prices of the materials used are low, then inevitably the projected

investment benefits will have a stronger attraction, which will stimulate investment. Through adjusting the prices of materials used and of goods produced, therefore, it will be possible to regulate projected investment earnings rates and achieve an automatic balance between supply and demand for investment, and investment will not expand or shrink excessively.

It is possible, therefore, to control macroeconomic activities through a series of pricing policies. For example, it is possible to intentionally divorce prices from value to encourage or restrict the development of particular industries. Changes in labor productivity in the production of commodities and in market supply/demand relationships can also be fed back to people in a timely way through pricing information. This is of benefit in the swift readjustment of production and consumption. Regulating the price levels of materials used is of benefit in controlling the scale of investment, while regulating the prices of goods produced is of benefit in controlling the investment structure.

But the regulatory role of the law of value also brings with it some blindness, which can easily lead to contradictions with the overall goals of socio-economic development. Readjustment of the pricing system is not easy. Changes in prices, especially in the prices of major commodities, often produce very strong repercussions and chain reactions in socio-economic life. Irrationality in the pricing structure can produce contortions in the investment structure. For example, at present some sectors (such as communications and energy) are extremely backward and are hampering the development of the overall national economy. Some products (for example, color televisions) have for a long period been in short supply, while some other products (such as various types of mechanical and electrical products) have long been in excess supply. The reasons for this structural imbalance lie in the distortion of prices. Because of the wide-ranging influence of prices, price changes have great repercussions in the national economy and in social life. It is thus not possible to arbitrarily make adjustments in accordance with changes in the situation, and therefore the pricing mechanism cannot completely effectively provide macroeconomic control of investment. Various signs indicate that if we want to control investment, it is necessary to use other economic levers in coordination with pricing.

3. The taxation lever and investment control

Taxation reflects an allocation relationship which has the state as its main part. It has three functional roles in economic activities: 1) It centralizes financial income for the state; 2) Through this process it regulates the allocation of national income (mainly the proportion) among taxpayers; 3) Through this allocation it regulates the economic activities of taxpayers. In general, changes in tax rates do not produce general upheaval and chain reactions in the national economy and thus these can be used in the macroeconomic control of investment activities.

Some contortions in the investment structure created by the irrationality of the pricing system can be alleviated through the role of taxation. Of

the profit portion of a price, allocation is mainly carried out through the form of taxation. Thus, in theory, value = cost $(C + V) + m$, which in actual economic life is manifested as price = cost $(C + V) + \text{enterprise profits} + \text{tax}$. Of course, in the distribution of enterprises' profits, pricing, taxation and enterprise profits are closely linked. In fixed prices, taxes recover the state's centralized portion while the remainder becomes the enterprise's profits. The position of tax between enterprise profits and pricing shows that we can use tax to regulate the contradictions between pricing and allocation of enterprise profits. In various senses, taxation is the only one of the various pricing structure factors not subject to the laws of commodity exchange. This means that in regulating economic activities, taxation has a special and greater driving force.

As to the demand for investment, changes in tax rates can control investment activities on two levels. First, through adjusting the taxes on goods produced, it is possible to engender or dispel investment interest through changes in the projected rate of investment benefits, then without changes in pricing (thus not bringing great disruption to the society), it is possible to regulate the investment structure. For example, to control the consumption of tobacco and wine, a policy of high tax has been implemented. The profits of tobacco and wine generally attract great amounts of investment, which leads to blind construction. Adopting the policy of heavy taxation at this time would reduce investors' hopes of obtaining excessively high investment benefits through investing in tobacco and wine projects, checking investment. Also, a number of low-profit primary industrial products and basic means of livelihood cannot attract investment. For these it is necessary to implement low-tax or no-tax policies to stimulate investment. Second, the level of the tax rate on materials used and the levying of construction tax and its rate can all affect the projected rate of investment benefits, and thereby encourage or restrict investment. Through this, the scale of investment can be controlled.

As to the supply of investment, changes in the tax rate have two different effects. If the autonomy of enterprises or other grassroots-level units is quite wide, a low-tax or no-tax policy will result in the enterprise retaining a high proportion of profits. Local reserve financial strength will be expanded and individual incomes will also grow. This situation will result in increased capacity for investment supply becoming a possibility (because savings will have increased) and also in expanded investment becoming necessary (because increased consumption demands increased investment). This will cause the scale of construction to expand and the national economy will also expand. But, because central finances would be reduced, it would reduce the central authorities ability to intervene in economic life. This would cause the investment structure to be guided by the market, which would result in a certain blindness. Adopting a high-tax policy can overcome the tendency towards blind expansion of investment and can also strengthen planned guidance of the investment structure, but if tax rates exceed rational limits, they will have an undesirable effect on the development of the national economy. This is because they will inhibit consumption and savings which will also curb the motivation for investment. This is not in keeping with the principle of enlivening enterprises.

In summing up the above, the taxation lever has a role in guiding both the scale and the structure of investment, and it is able to partially alleviate contortions in the economic structure produced by the irrationality of the pricing system. But the role of tax is quite restricted when compared with the pricing system. Because taxation mainly involves the allocation of profits between the state and enterprises, its influence on the overall socio-economic situation is negligible. Since the scope and range of regulation is subject to the restrictions of profit levels within pricing, the need for state financial income, and other important factors, it cannot completely influence the supply of and demand for investment. For those products or enterprises which produce very little profit or even incur losses, despite low tax or exemption, taxation measures will not be enough to attract sufficient investment. At the same time, the purpose of taxation is collecting revenue for the state and this revenue needs to be fairly stable. Hence, we cannot arbitrarily readjust imbalances in investment supply and demand brought about by the market. Its regulatory role, therefore, is not as effective as that of the pricing mechanism.

4. The interest rate lever and investment control

In the macroeconomic control of investment, interest rates are an extremely important economic lever. The interest rate lever regulates and controls investment activities through the movement of funds. Seen from the angle of macroeconomic management, after the credit mechanism is adopted in fixed asset investment, it is necessary to bring interest rate levers into play, thus controlling investment.

The functions of interest rates are as follows: 1) Interest is a means by which banks participate in the distribution of enterprises' profits. The interest rate also manifests the average degree of profit which the bank will divide up. Under conditions of fixed product price and tax rates, interest and enterprise profits have a relationship where one gains only at the expense of the other; 2) Interest rates play a role in regulating the scale and direction on investment through dividing up a part of average profits. The role of the interest rate lever has something in common with that of tax rates. In controlling investment, the interest rate lever can fill in those areas where tax rates and pricing mechanism are insufficient. But the interest rates are in the hands of the banks, which is different from other economic levers. Changes in interest rates influence investment activities and savings activities, and thereby influence the macroeconomy. In the situation where other conditions do not change, interest rates for credit and investment demand have an inverse relationship: when interest rates for credit are high, enterprises projected investment costs will be high and the rate of profits low, thereby restricting investment demand. When interest rates for credit are low, the projected rate of investment benefits will be high, stimulating investment demand. From another angle, interest rates on savings and the investment supply are directly proportional. If the savings interest rate is high the banks will draw in a large amount of social funds and their investment supply capabilities will be strengthened.

If the savings interest rate is low, the banks will draw in only a small amount of social funds and it is possible that funds supply will not meet demand. So interest rates are regulators of investment supply and demand.

Interest rates can also be regulators of the scale of investment and also a means of assessing investment benefits. Through changes in interest rates, it is possible to control rates of income in different sectors and to regulate the investment structure. Our nation's current interest rate for investment credit is very low, which results in low investment costs. This conceals the problem whereby some investment projects have poor investment benefits, which encourages investment inflation. Thus, we can appropriately raise credit interest rates increasing costs of investment to cause some projects with poor economic benefits to become unprofitable or loss-makers, causing the enterprises to cut down such investments. Those projects which have quite good investment results will, in a situation where investment costs rise, still be able to realize profits rates higher than the interest rates, and such projects will be retained. In this way, on the one hand the economic benefits of investment will be enhanced and, on the other hand, it will be possible to eliminate some projects with poor investment results, and thereby reduce the overall amount of investment. Through the process of dynamic balancing between credit interest rates and comprehensive investment planning, it will be possible to make investment supply adapt to investment demand.

The role of interest rates in controlling investment is manifested as influence on the investment decisionmaking of localities and enterprises. The roles of the law of value and the law of the average rate of profit ensure that investors pay much attention to the projected rate of investment benefits. They must compare credit costs with the level of profits which can be achieved and subsequently make the investment decision in accordance with the size of investment earnings.

Through adjusting interest rates to control investment, it is also possible to centralize funds which are dispersed in society and channel them into investment projects with great economic benefits. When total funds have not yet reached the quantitative level where it is possible to solely use them as the production base, or when the projected rate of investment earnings is lower than the interest rate, then funds will be stored in banks. Banks will then transfer them to investment projects which have high earnings ratios and good economic results, achieving a rational flow of funds.

The interest rate lever is more flexible than pricing and taxation levers. Through controlling the movement of funds in society, it regulates investment both within and outside the plans.

The flexibility of the interest rate lever is manifested in that it can float within certain limits and in that differential interest rates can be implemented for different trades and for different regions. In this way, it plays a more flexible role in adjusting regional distribution and industrial structures than does the pricing mechanism, which rejects exceptions and tends towards uniformity. Floating interest rates mainly balance total

supply of and demand for funds and control the scale of investment. Differential interest rates mainly guide investment into particular industries and regions and are thus of benefit to structural readjustment and strategic development.

The use of the interest rate lever to exercise macroeconomic control over investment is not a universal measure. At times, it must be combined with tax rates and the pricing lever since the role of interest rates is not complete. For example, under the influence of interest rates, social funds will tend toward high-earning projects. But the earnings ratio of investment projects is affected not only by the cost of credit, but also by prices and interest rates. Also, because the prices of some products in short-supply, and some key state projects are irrational, they are unable to attract investment. Hence, at the same time the interest rate lever is used to control investments, it is also necessary to use pricing, taxation, and other economic levers to regulate the level of earnings, encourage investment in products in short supply and major projects in need of developing such as energy and communications, and restrict enterprises from developing the production of products in excess supply.

5. The necessary coordinated use of the three major levers of pricing, taxation, and interest rates

Individual economic levers are unable to exercise effective control over diverse, multilevel investment activities. Economic measures are a system of many economic levers. Only through the coordinated use of economic levers which can play roles from different angles is it possible to control macroeconomic activities. There is thus a need to ensure that pricing, taxation, and interest rates are linked up and coordinated. The necessity of this is manifested in: 1) A socialist economy requires a rational pricing system and requires that the state is able, through taxation, to control certain financial strengths. It also requires that bank interest rates are able to play a role in regulating investment supply and demand; 2) A socialist planned commodity economy requires the rational allocation of enterprises' profits; 3) The regulation of investment activities needs to be diverse and varied. The regulatory roles of the pricing, taxation, and interest rate levers each have their own points of emphasis and restrictions. Also, the degree to which, and the direction in which, the various economic levers exercise their role is not uniform.

In brief, the use of economic levers to control investment in fixed assets mainly involves the bringing into play of the law of value and the law of average rate of profits. Investors seeking the greatest rate of earnings and, on this basis, selecting the best direction of investment and most rational scale of investment will be of benefit in shifting our nation's economic construction onto the track of improved investment benefits. This method of control is suited to the nature of the economic structural reforms. On the basis of perfecting enterprises' operational responsibility systems and having them correctly utilize their autonomy in seeking appropriate economic benefits so that the enterprises truly become fairly independent

commodity producers, this method of control will ensure that enterprises and localities make investment decisions which, while in accordance with their own interests, also basically conform with state plans.

Of the three types of economic levers which can influence investment earnings, the most flexible is the interest rate lever, followed by the pricing lever, and then the taxation lever. The lever which can come into effect most quickly is pricing, followed by taxation and then interest rates. Price changes have great repercussion on the national economy and can easily produce chain reactions. The tax levers requirement for relative stability is in contradiction with the changes in commodity supply and demand. Although interest rates can play a role over a long period, they do not play the most important role. Consequently, there is a need for economic levers to be used in a coordinated way.

In investment activities, to coordinate with the reform of the economic structure so that the microeconomy has sufficient vigor, it is necessary to readjust prices, and reform pricing systems which do not truly reflect the value of a commodity and which are not really effective, so that tax-rate planning has a basis, and so that pricing signals can correctly guide the investment of funds. In this way, we can avoid situations where supply does not meet demand or where supply exceeds demand, and will not frequently change tax rates and interest rates in trying to alleviate the irrationality of prices. The correct countermeasure at present is, on the basis of implementing the second step of the reform to substitute tax payment for profit delivery, to make tax rates fairly stable so that they are coordinated with large-scale price readjustments. In the fixing of interest rates, it is necessary to consider alleviating the problems left unresolved after the readjustment of prices and tax rates. As for both of demand for investment and supply of investment, we should mainly seek to control the latter. Concurrent with adopting various administrative measures, we must adopt mainly economic-type control methods and, by utilizing investors' desire to seek profits above the average level, adjust projected rates of investment benefit. In brief, with the system of economic levers, as one lever maintains stability, the role of another can be strengthened to control investment. This is the coordinated use of economic levers.

So that it is possible to comprehensively utilize various economic levers in controlling investment activities, it is necessary to establish a specialized investment coordination organ jointly comprising various comprehensive economic departments. These will be able to spread investment information in a timely way, and regularly consult about and set down plans for using regulatory measures in a coordinated way so that there is unified progress and coordinated action. Simultaneously, in accordance with the system of planned management, various investment coordination organs should be set up by the provincial city and regional levels, to be responsible for the coordinated use of economic levers within the limits of their own powers and for linking them up with the plans of upper and lower levels, to guarantee the smooth implementation of investment activities.

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CSO: 4006/645

ECONOMIC MANAGEMENT

JOURNAL ON ACCELERATING DEVELOPMENT OF TERTIARY INDUSTRY

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 11, 5 Nov 85 pp 13-16

[Article by Huo Guoyin [6787 0948 0603]: "Several Theoretical and Policy Problems Which Must Be Solved Before the Development of Tertiary Industry Can Be Accelerated"--edited by Liu Qichang [0491 0366 2490]]

[Text] In implementing the decision of the CPC Central Committee on reform of the economic structure and accelerating the overall reform of the economic structure with major stress on cities, the vigorous development of tertiary industry has been placed on the agenda.

At present, countries of the world have different concepts and understanding of the nature of tertiary industry and different interpretations of its scope. In my opinion, starting from the actual situation of our country, the various social service trades and enterprises serving the people's livelihood and production should come under the blanket name of tertiary industry. Principally, it embraces the following seven categories: 1) Public municipal service trades, including municipal construction, real estate enterprises, urban public communications and transport, post and telecommunications, waterworks and electric power supply, gas and thermal power, water lanes, environmental protection, tree planting, and parks and gardens; 2) livelihood service trades, including restaurants, hotels, cleaning and dyeing works, barber shops, beauty saloons, gymnasiums, bathhouses, and recreational and amusement grounds; 3) production service trades, including advertising, consultation, information, repair, and warehousing; 4) circulation service trades, including wholesale, retail, and lease and hire; 5) financial service trades, including banking, trust, insurance, investment, and general agency; 6) specialist service trades, including legal affairs and accounting; 7) social service trades, including cultural and education, science and research, public health and health care, and social welfare.

In addition, the work of government organs, armed forces, police, law courts, safety protection departments and clerical and filing offices is also needed by society and is also service in the broad sense, but since these departments are nonproductive departments, they do not belong to the category of tertiary industry.

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In the past, there were many causes for tertiary industry's slow development in our country. If we examine the problem from the standpoint of ideology and understanding, it may be found that the basic cause was the shackles of the traditional economic outlook of several thousand years' standing which "stressed the fundamental but slighted the incidental" and which "stressed agriculture but neglected commerce," refusing to recognize labor services as productive services. In addition, over the past 30 years and more, the influence of "leftist" thinking has helped to form the prejudice of considering social service enterprises as philanthropic or welfare enterprises. To accelerate the development of tertiary industry, first of all it is necessary to solve, in theory and understanding, the following three problems:

First, it is necessary to thoroughly eradicate the natural economic outlook of the noncirculation theory of socialism. Old China was an extremely undeveloped semicolonial and semifeudal society of capitalism. Its self-sufficient natural economy carried down over several thousand years has occupied an important place in the economic life of society. Generation after generation of feudal rulers adopted the policy of "stressing agriculture and downgrading commerce," forming a traditional ideology of slighting and looking down on commerce and considering the service trade as "lowly" and beneath people's dignity. Moreover, during the period of the revolutionary base area, the supply system was enforced while after liberation the systems of rations in kind was in vogue for a long time. This caused small producers to frequently psychologically despise the merchants' exploits, to treat and refute socialist commodity circulation, to erroneously interpret socialist economy as a self-sufficient natural economy which abolishes division of work in society, and to take socialist society as a large factory which abolishes commodity circulation and literally is the employer of all the staff members and workers. This confused the functions of exchange and distribution, which are different from each other. The results of the prolonged nonrecognition of socialist economy as a planned commodity economy and refutation of exchange at equal value were that the development of socialist commodity circulation, commerce, and the service trades was greatly restricted; likewise restricted was the development of the departments of tertiary industry which serve commerce and circulation such as communications and transport, currency, trust, insurance, investment, information, and the consultation profession.

The decision of the CPC Central Committee on reform of the economic structure has clearly pointed out that socialist economy is a planned commodity economy. It has provided us with the best theoretical weapon to eradicate the natural economic outlook and also a theoretical basis to go ahead boldly in vigorously developing tertiary industry.

Second, it is necessary to thoroughly refute the erroneous traditional viewpoints of treating service departments as nonproductive departments and labor services as nonproductive labor which does not create value or wealth. These traditional viewpoints have for long formed the major theoretical basis for attaching importance to industry and agriculture and slighting commerce and the service trades.

Looking back at the history of development of human society, it may be found that under the conditions of the natural economy of the serf system and the feudal system, service trades basically consisted of purely consumptive activities in service of the luxurious living of the serf masters and feudal overlords, hence were departments of a nonproductive nature. However, following the development of science and technology, particularly since the emergence of large mechanized industries and a highly developed commodity economy, a fundamental change has taken place in the character of the service trades. They are no longer pure consumption departments basically serving the livelihood of a small number of exploiting individuals, but have become production departments directly serving the departments of primary and secondary industries in undertaking the production of material goods and reproduction of labor force.

Under the conditions of social large-scale production, labor services are also a kind of commodity and also possess value and use value. Marx already discussed this point lucidly a long time ago. He pointed out: "Service is commodity and service has a definite use value (imaginary or real) and a definite exchange value." ("Collected Works of Marx and Engels," Vol 26, p 149) The only difference is that the use value provided by labor services is of a special form, "just like other commodities which also provide a special use value of their own; but the special use value here of this kind of labor has obtained the name 'service' because the labor provided is not a material object but consists of activities." (Ibid., p 435)

Labor mentioned in political economy refers to social labor, that is, labor's social attribute and not labor's natural attribute. Hence as seen by Marx, the definition of productive labor "does not come from labor's material regulated character (not from the character of the products of labor, nor from the innate special character of labor as concrete labor) but is derived from a definite social form and from the social relations borrowed by labor for its realization." (Ibid., p 148) Hence, production labor is not necessarily related to material production. "The material regulated character of labor, and in turn the material regulated character of the labor products themselves, is not related whatsoever with the differentiation between production labor and nonproduction labor." (Ibid., p 150) That is, since the emergence of socialized large-scale production, social production is divided into two large categories: production of material goods and production of nonmaterial goods. Corresponding to this, social production departments are also divided into material production departments and nonmaterial production departments. The former includes departments of primary and secondary industries such as agriculture, industry, building, and mining while the latter comprises the departments of tertiary industry which serve production and livelihood.

Commerce, service trades, communications and transportation trades, and postal and telecommunications, information and advertising, consultation, and currency and insurance departments directly provide labor services to the production of material goods and to the reproduction of labor force. Hence they are all production departments. The laborers of these departments likewise directly create value and use value as well as national wealth and national income. Their labor is production labor. Not only that, but also the labor

of the mental and manual workers of departments of culture and education, public health and health protection, science and technology and so forth is likewise production labor serving production and livelihood and serving reproduction of the labor force. Just as Marx pointed out: The labor services of teachers are "for the purposes of making labor capacity possess a specialized character or of maintaining and sustaining labor capacity," the labor services of doctors are "for the maintenance of good health and of the source of all value, that is, labor capacity itself," and "these services should be entered into the production cost or reproduction cost of the labor capacity." ("Collected Works of Marx and Engels," Vol 26, p 159) Thus, although teachers and doctors do not directly take part in the process of material production, their labor services are essential for the nurturing, improving and "restoring" of the labor force and maintaining and expanding the source of value and constitute production labor facilitating the workers to create more and better material goods and nonmaterial goods. This kind of labor, like the labor of scientific and technological personnel, is the "pre-stage or advanced engineering work" of the production process. The labor services of workers of departments of literature, arts, news, broadcasting and television, telephones and telegrams, all constitute productive labor serving the creation of cultural and intellectual goods or serving production and livelihood. The service commodities which they provide for use to satisfy the needs of man's material and cultural lives likewise possess value and use value and their value is also formed by the three portions equivalent to $c + v + m$, except that the existence form of the value and use value of these service commodities is different from that of material commodities, and is not crystallized in a definite form of material objects but exists in languages, writings, sound or images and exists in service activities.

For a long time, traditional economic theories have believed that labor services can only transfer value, consume value but cannot create value or use value. This is incorrect. If it were true then would it not be tantamount to saying that the greater the development of the labor service economy, the greater would be the consumption of social labor and social wealth and the poorer would society become? This "theory" is basically opposite to the realization of the development of the world's modern economy and hence is erroneous. The objective course of history is that the greater the development of social production and the more modernized the economy, the greater is the proportion of the wealth of society being occupied by nonmaterial use value and labor services; and the higher the people's income level, the greater is the proportion of labor services in the consumption composition of the individual. Development of labor services facilitates economic development and social prosperity.

Marx' scientific theory of value of labor embraces not only the theory that material production labor creates value but also the theory that labor services in nonmaterial production likewise create value. A scientific theory of labor should include "theory of value of labor." In the past, the theory of the value of labor was not recognized and the extensive service departments of nonmaterial production such as culture, education, science, technology, public health, health protection, passenger transport, telephone, advertising and information were all treated as purely consumption departments.

In the periods of the "Great Leap Forward" and the "Cultural Revolution" people went so far as on various occasions to subject these departments to destruction, thereby greatly weakening the foundation of these production departments of a service nature and bringing about a prolonged state of backwardness in tertiary industry. These are the consequences of a one-sided interpretation of Marx' theory of value of labor and the nonrecognition of the "theory of the value of labor." At present, it is necessary to make a big breakthrough in theory and to recognize that the theory of the value of labor embraces the "value of labor" and that labor services likewise create value and use value. Only by so doing can we heighten our regard for tertiary industry and accelerate its development.

The majority of the departments of tertiary industry require little investment, produce quick results, and are a "ready source of money." Some industries and trades, such as education and scientific and technological enterprises, are found to be temporarily requiring investment but not immediately yielding results. They may be taken as "treasure bowl" industries. In today's vast development of socialized large-scale production, science and technology have become the direct productive forces. The creation of a new invention or the adoption of a new technology or artcraft frequently can improve the labor productivity rate by several thousand percent. Educational departments are "processing factories" and "repair shops" for the production and reproduction of labor power. An estimate made through careful calculations by many economists in the country and abroad believes that under modern economic conditions, in the growth rate of the gross value of the GNP, around 40 percent is attained through dependence on improving technology, perfecting management methods and raising the workers' cultural level. During the 11 years from 1960 to 1977 in the Soviet Union, each increase of 1 percent in the workers' cultural level brought about a corresponding increase of 14 percent in the social labor productivity rate. During the 1929 to 1957 period, the benefits reaped by the United States by means of raising the educational level and strengthening scientific research made up roughly 43 percent of the annual growth rate of the national income. Following the development of modern science and technology and the rise in the educational level, labor's content and composition have undergone immense changes and the output value and national income created by tertiary industry have occupied an increasingly large proportion of the GNP and the gross value of the national income. This is an objective law of socioeconomic development.

Third, the biased attitude of taking tertiary industry as equivalent to philanthropic enterprises and welfare enterprises and as forever being a losing proposition must be thoroughly abandoned. Under the conditions of a developed commodity economy, not only are labor services commodities but also knowledge, science, and technology. Hence we must follow the objective demands and laws of the development of commodity economy to organize and manage tertiary industry and let its various sectors take the route of becoming enterprises so that they can carry out their own development.

II

To accelerate the development of tertiary industry, aside from theoretically improving people's understanding and correctly orienting their guiding ideology, it is also necessary to rely on the enforcement of correct policies to create conditions for tertiary industry's development. Based on Beijing's example of accelerating the development of tertiary industry, we make several recommendations as follows:

First, it is necessary to basically change the original policy of Beijing being a key industrial structure which stresses the development of industry and agriculture and an employment structure which principally depends on the industrial departments to provide jobs for employment and to adopt a policy of being an industrial structure which mainly aims at development of tertiary industry and an employment structure which mainly relies on departments of tertiary industry to provide jobs for employment. It is also necessary to change the one-sided viewpoint of purely emphasizing that tertiary industry must serve primary and secondary industries and at the same time to stress that primary and secondary industries should serve tertiary industry. Primary and secondary industries should actively provide agricultural and sideline products, food products, industrial products and various kinds of production and experimental measures for the development of tertiary industry.

Second, in regard to the structure of the ownership system, it is necessary to fundamentally change the prolonged situation of the state unifying the whole universe and of tertiary industry being solely run by the state, and to carry out the guideline of having the state, the collectives, and the individuals simultaneously taking part and large, medium-sized and small enterprises emerging simultaneously. In particular, in regard to commercial units, eating places, repair shops and service trades which principally count on handicraft or manual work, emphasis should be laid on those run by collectives or individuals and on those of medium or small sizes. Actual practice has shown that among the many branches of tertiary industry, those run on a scattered, small-scale and flexible basis can better meet the demands of the consumers than those which are centralized, of large size, and run rigidly and they generally reap high economic results and enjoy fast development.

Third, it is necessary to break the closed-door operation form of small-scale production, open wide the gates of the "imperial palace" to the whole country, and enforce the policy of liberalized operation. Beijing's special position determines that in developing tertiary industry it is necessary to change the traditional operation and management guideline of closing the door to the outside, closing and sealing up the inside, confining operations to designated spots, but allow industries and trades to have separate and special spheres of interest and adopt an opening up policy of being oriented to the whole country and society. It is also necessary to allow and encourage outside provinces and cities and peasants to come to Beijing to establish and run either jointly operated or solely financed enterprise units of tertiary industry and to permit a slated number of foreigners and compatriots of Hong Kong, Macao and Taiwan to operate jointly run or solely financed enterprises of tertiary industry.

Fourth, it is necessary to liberalize the investment policy in regard to departments of tertiary industry. In the current period, in investment, stress should be laid on those departments of tertiary industry which have a direct bearing on the people's livelihood, particularly the four large industries and trades of commerce, services, restaurants and repairs. In addition to the state increasing its investments in these departments, special attention should be paid to vigorously absorbing, through offering preferential terms, investments from residents in the city and city suburbs and from enterprises, organs and individuals in outside provinces. In addition, we must strive to absorb investments from foreigners, Overseas Chinese and compatriots of Hong Kong, Macao and Taiwan.

Fifth, in taxation, it is necessary to enforce special and preferential policies toward the majority of sectors in tertiary industry. In addition to continuing the current practice of exempting cultural, educational, public health, scientific research and recreational enterprises from taxation, within a specified period those industries and trades which have a relatively low profit ratio (such as public transport, repairing trade, barber shops and bathhouses) or enterprises which have newly started business should all enjoy the benefit of a suitable reduction or exemption of taxes.

Sixth, it is necessary to suitably liberalize the policy of commodity price control vis-a-vis departments of tertiary industry. Based on the objective demands of the law of value, we should readjust, in a planned and systematic manner, the prices and standard of collection of fees of the various sectors in tertiary industry. With the exception of commodities and labor which have a relatively strong influence on the people's livelihood and are in short supply and for which the prices and standard of collection of fees should be subjected to the planned control of the state, the prices and standard of collection of fees of other categories of commodities and labor should be determined by the operating units themselves in accordance with the conditions of market supply and demand, or by means of free negotiation of prices between the buyer and the seller. By so doing, it is possible that the prices and fees of certain commodities or services may temporarily be a little higher but in the long run the prices will gradually fall.

Seventh, it is necessary to reform the management structure of the enterprises under the system of ownership by the state in certain sectors of tertiary industry. Large and medium-sized enterprises in commerce and the service trade may carry out collective operation in the form of stock companies owned by the state and thus develop a socialist joint economy. In the stock companies of a joint economy, the original capital of the state may become government shares, the newly absorbed funds paid for shares by enterprises and organs become collective shares and funds paid for shares by individual employees become individual shares. The manager responsibility system under the leadership of a board of directors should be enforced. The board of directors should be elected by an assembly of shareholders, and a board chairman should be appointed, all of which should be reported to the relevant government department for reference. The board of directors should appoint the manager, assistant manager, chief economist and chief statistician. The manager should appoint the company's other management personnel at various

levels. Small enterprises in the commercial and service trades and enterprises in the repairing trade may enforce the system of collective renting or hiring and individuals may operate them through contracting. Government departments in charge will not directly manage the company's affairs, but are only responsible for stressing the guidelines and policies, and handle the supervision and inspection work, guide, coordinate and organize economic technological operation which spans several regions and perform such services as providing preproduction and postproduction information and intelligence. Stock companies of the same industry or trade may form their own trade or industry federations while stock companies of different industries or trades may form joint associations or cooperation associations, or even organize various kinds of jointly run and cooperation companies, thus strengthening the companies' internal and external, vertical and horizontal relationships.

Eighth, it is necessary to speed up the training and development of various kinds of specialized technical personnel and operation and management personnel needed by tertiary industry, and to cultivate and develop various kinds of professional and specialized education. In addition to further establishing various kinds of service institutes and professional senior high schools, it is necessary to rapidly establish an all-city institute on service economy. The establishment of a "Beijing city economic research institute on tertiary industry" may well be considered so as to speed up the training and bringing up of middle level and higher level management personnel and specialized technical personnel needed by the various sectors of tertiary industry and strengthen the scientific research work in developing the economy of tertiary industry.

Ninth, in developing tertiary industry, it is necessary to pay close attention to the work of lawyers and the general propagation of legal knowledge. The policies relating to development of the work of legal offices should also be suitably liberalized. The practice of treating lawyers as government workers should be changed and lawyers should be treated as operators of legal offices so as to fully arouse their enthusiasm.

Tenth, it is necessary to formulate a long-term development plan and a development plan in separate stages. There should be overall planning and unified arrangement, which conforms with actual needs and possibilities, for the scale and pace of development, and regional distribution of the various sectors of tertiary industry so as to achieve a planned development.

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CSO: 4006/643

ECONOMIC MANAGEMENT

DEMOCRACY, MANAGER RESPONSIBILITY SYSTEM

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 11, 5 Nov 85 pp 40-43

[Article by Huang Yongjing [7806 3057 2417], director of Shenyang Smelting Plant: "Democratic Management Is the Basis of the Factory Director Responsibility System"]

[Text] Since 1980, our plant has carried out an experiment in the implementation of the factory director responsibility system. The experiment has roughly undergone two stages: The first stage was to transform the factory director responsibility system under the leadership of the party committee and the system of employees representative assembly under the leadership of the party committee into the factory director responsibility system and the system of employees representative assembly; while the second stage was to transform, after the promulgation of the "Draft Law of State-Owned Industrial Enterprises," these "two systems" into "one system," namely the factory director responsibility system. The functions of the standing committee of the employees representative assembly, which was a separate institution, are now performed by the trade union committee of our plant. Since then the responsibility and power of the three parties--the party, the management, and the trade union--have been clearly defined: The plant director exercises unified leadership over the production administration and operational management of the whole plant; the party committee's role is supervising and ensuring the implementation by the enterprise of the party's line, principles, and policies; and the employees assembly is the basic form of the implementation of democratic management in the enterprise.

I. Fully Understand the Importance and Necessity of Democratic Management

After the implementation of the factory director responsibility system, the factory director, as the representative or legal person of the enterprise, assumes power over personnel, finance, materials, supply, production and sales, and over other administration work and thus has greater authority than before; he is also assigned overall responsibility for the production and management work of the whole enterprise and thus shoulders a heavier responsibility than before. Under these circumstances, the questions of how a factory director is to correctly treat employees, whether they should act as masters of the enterprise, whether democratic management should play a role, and how he is to rouse the masses of employees to participate in democratic

management are all practical problems that a factory director must conscientiously and correctly deal with. My experience over the past few years has enabled me to deeply realize that no matter how the leadership system has changed, we must be firm and persistent in upholding the idea of relying on the masses of employees in satisfactorily running the enterprise. Particularly since the implementation of the factory director responsibility system, factory directors should be more conscious, conscientious, and sincere in rousing the masses of employees to participate in democratic management and regard democratic management as the foundation of the factory responsibility system. This is because:

1. It is an objective requirement resulting from the implementation of the socialist enterprise leadership system with Chinese characteristics. In theory, what we mean by the socialist enterprise leadership system with Chinese characteristics is that it combines the requirements of socialized mass production with the socialist system and the power and authority of enterprise leaders with the position of employees as masters. Socialized mass production requires that in an enterprise, a system must be implemented so that everyone obeys the will of one person. The socialist nature of an enterprise determines that rank-and-file employees are the masters of the enterprise and requires that the will of the enterprise leader represents the will of all the employees. The extent to which employees exercise their democratic power is an important indicator for measuring the perfection of the socialist system. The establishment of the power and authority of the factory director's leadership must be based on the wholehearted support of rank-and-file employees. Therefore, to implement a socialist enterprise leadership system with Chinese characteristics, we must satisfactorily carry out democratic management over our enterprises.

2. It solidly incorporates the party's mass line in our enterprises. The director of a socialist enterprise is the representative of the enterprise as a legal person and is responsible to the state, to the society, and to the enterprise. The relationship between factory director and the masses of employees is not one between employer and employees, but is one of camaraderie between leader and those under his leadership. The difference between the director and the masses of employees is the result of a division of labor. The state expands the power of an enterprise and delegates power to it not only for the factory director as an individual but also for all its employees. Therefore, a factory director must pay close attention to the position of the employees as masters, attach great importance to democratic management, pool the opinions and wisdom of the vast number of employees through diverse forms of democratic management, thus ensuring the accuracy of his policy decisions. It is entirely wrong to think that the reform in our leadership system means that factory directors are superior to the masses and can act arbitrarily in giving orders around and refusing to accept the supervision of the masses.

3. It reliably ensures accuracy in factory directors' policy decisions. The factory director's role is very important in satisfactorily running a factory. Particularly since the implementation of the factory director responsibility system, power over decisions on major issues concerning the production and operation of the factory have been assigned to the factory

director; therefore, his role has become even more prominent. The level of the factory director's competence in making policy decisions directly affects the economic results and development of the factory. But it is impossible for any factory director to be a jack of all trades and an entirely perfect person. We cannot just rely on one person no matter how competent that person is. Take me for example. I have studied metallurgy and know more about it, but I know less about machinery, equipment and welfare related to livelihood. In managing such a large enterprise, major issues in many spheres have to be finally decided by the factory director. The only method for me is to rely on democratic management, pool the intelligence of many people and give play to the talent and wisdom of the masses of employees. Only thus can I ensure that all decisions are correct, thereby enabling the enterprise to prosper. During the 2 or more years as factory director, I have adhered to this principle, and no serious error has ever emerged in major policy decisions in the plant.

4. It is a powerful way to give play to the initiative of the masses of employees. Marxism holds that without certain material interests and political power, no initiative of any class will emerge naturally. Under socialist conditions, material interests and democratic power remain the two basic factors that directly affect the initiative of the masses of employees. My experience tells me that if we fail to perfect the democratic management system of our enterprise and if we fail to ensure the democratic power of employees, talented people who know production technology and administration and management will be suppressed, correct opinions will be rejected, and there will not be prompt feedback of information from various sections. Under these circumstances, the factory director is very likely to become a blind commander who has great willpower but is poorly informed. As a result, he may seriously damage the initiative of the employees. Only by actually ensuring democratic power and making employees really feel that they are the masters can we make them think along the same lines as the factory director and can we give full play to their initiative and creativeness.

II. Support Employees Representative Assemblies in Exercising Their "Five Powers"

Since the implementation of the factory director responsibility system in our plant, the employees representative assembly has ceased to be a policy decisionmaking organ, but has become a basic form of democratic management. As a plant director, however, I should not think that the assembly is something that can be discarded, but should be regarded as an organ by which the masses of employees exercise their democratic management power. In my work, I have paid attention to supporting the assembly in exercising its "five powers." As a result, the masses support the director's policy decisions, obey his directions, support his work and thus provide a reliable basis and guarantee for the factory director responsibility system.

1. Support the employee representative assembly in exercising its power to examine and discuss major issues of the enterprise. Before making decisions on the enterprise's long-term development plan, annual plans, major technological transformation plans and other major issues related to its production,

operation, administration and management, I always persist in delivering the issues to the employees representative assembly for examination and discussion to let the masses of employees take part in making decisions. I have also managed to practice "three initiatives" and "three gives." The three initiatives are: I take initiative to call for a meeting of the employees representative assembly, to deliver to it the documents to be examined and discussed, and to give it a report. The three gives are: Give it materials. In other words, I print up the documents to be discussed and examined and issue them to the members of the assembly so that they will have something to aim at in examining and discussing the documents. I give them time. Generally, the documents to be examined and discussed by the assembly should be sent half a month before the meeting so that the members have sufficient time to consider. I give them answers. In other words, the factory director should give conscientious explanation and answers to the opinions and suggestions made by the assembly. On the basis of the examination and discussion of the employees assembly, the factory director pools the wisdom of the masses of employees and then makes the decisions. This ensures the correctness of his decisions. At the same time, the process of the examination and discussion by the members of the assembly is also a process to mobilize and educate the masses. For example, at the beginning of last year, I put forth three major targets for the production and operation of our plant, namely, 43 million yuan of realized profits for a net increase of 10 million yuan over the year before; an output of 130,000 metric tons of sulphuric acid, setting a record; and ranking first in the nation in quality of our electrolyzed copper after we ranked first in quality of our electrolyzed lead. When these three operational targets were delivered to the employees representative assembly for discussion, some members worried that it was difficult to attain the targets, but most held that our plant was an old enterprise and had to make greater contribution to the state and that although the targets were a little too high, through efforts, they could be attained. They also brought forth quite a few measures and proposals to ensure the attainment. Based on the opinions of the assembly members, we honed our production and operation plans and made a final decision. At the end of the year, these targets were fully reached.

2. Support the employees representative assembly in exercising its "legislative" power over the formulation and implementation of major internal rules and regulations of the enterprise. To ensure its position as master of the masses of employees and to safeguard its legitimate rights and interests, I have delivered to the employees representative assembly for democratic discussion all the major internal rules and regulations of our enterprise including "Factory Director Work Rules," "Employees Award and Punishment Regulations," "Employees Housing Distribution Regulations," and "Employees Children Job Distribution Scheme." Once these rules and regulations are discussed and approved by the assembly, they are of the nature of law in our enterprise, and no one is allowed to violate them. Practice has proved that by exercising its "legislative power," the employees representative assembly fully embodies the will of the masses of employees and guarantees their rights to be masters of the enterprise. By so doing, the factory director is also provided with rules and regulations as a basis for his actions. Backed by the assembly, the factory director can do his work resolutely and smoothly and can solve

many contradictions easily. For example, he now finds it easy to solve thorny problems related to housing distribution and job distribution to workers' children. This can generally satisfy both the trade union and the factory director.

3. Support the employees representative assembly in exercising its power over daily democratic management. This is mainly achieved through the daily activities of the permanent presidium of the assembly, the groups of the representatives of employees and the masses of employees. The daily democratic management of which the assembly takes part is mainly divided into three levels, namely, the factory level, the workshop-section level, and the group and team level. The daily democratic management at factory level means that in directing and making decisions on ordinary daily matters, the factory director not only often contacts the party committee, but also discusses with the permanent presidium of the employees assembly and listens more to the opinions of the many management workers of professional departments and of engineering and technical workers. The daily democratic management at the workshop and section level is mainly realized through the activities of the groups of employee representatives in listening to the work reports of workshop directors and giving the workshops opinions, suggestions and advice. The daily democratic management at the group and team level is realized through workers' management representative in helping team or group leader's work. In addition, I advocate that within the scope allowed by the rules and regulations of the factory, every worker should really become the master of his own post and job and have the greatest possible decisionmaking power to satisfactorily do his work at his post. He should not work only when ordered to. My conviction is that the masses of employees taking part in deciding major issues of the enterprise through their assembly is an important way to ensure their position as masters in their enterprise, but based on the reality at present, this form of democratic management is still restricted by many objective conditions. The democratic power of the masses of employees is still limited. If employees at all posts in the enterprise can be the masters and independently, conscientiously, and creatively work at their posts, then the democratic management of the entire factory and the employees' position as masters can truly be realized.

4. Support the employees representative assembly in exercising its power to supervise administrative cadres at all levels. To put the administrative work and cadres under the supervision of the masses, I have vigorously supported the establishment by the employees representative assembly of the system of masses of employees periodically evaluating cadres. Cadres at factory level are evaluated every 6 months, while cadres at bureau and department level are evaluated every 3 months. A comprehensive evaluation of cadres' work, study and style is required. The good ones are praised and the ones with poor performance are criticized. The evaluation is carried out in the presence or without the presence of the cadres. The representatives of employees are to fill evaluation forms for the cadres and the cadres evaluated have to sign the forms personally. The evaluation forms are to be kept in files and regarded as a basis in evaluating cadres' performance, and in awarding, punishing, appointing, and dismissing cadres. In addition, we have also taken the initiative to ask employee representatives to inspect our

administrative work. In the first half of last year, the production and management committee of the employees assembly investigated the employment of special funds and broached five proposals. Based on these proposals, we have improved our work and thus to some extent conserved funds and lowered costs in our factory.

Administrative cadres take the initiative in accepting the supervision of the masses of employees. On the one hand, this enables them to quickly discover errors and omissions in their work and to promptly correct them; and on the other, it prompts them to improve their work style and party style and strengthens the ties between the cadres and the masses and enhances unity.

5. Support the employees representative assembly in exercising its power of democratic election. A factory director is elected by democratic election of employees representative assembly and appointed by the upper-level responsible organ. This practice has been established ever since our factory carried out the experiment of reform in our leadership system. Our factory spent 4 years implementing reform in its leadership system. During that period, three factory directors were appointed each replacing the preceding one (including me), and they were all elected by the employees representative assembly through democratic election and appointed by the responsible department. I think that a director of an enterprise owned by the state must have dual status: He not only manages the enterprise on behalf of the state, but also represents the legal person of the enterprise; and he not only safeguards the interests of the state, but also safeguards the interests of the enterprise and its employees. Based on this understanding, it is necessary for a factory director to be democratically elected by the employees representative assembly and then appointed by the responsible organ. It is also possible to do this based on the practice of our factory over the past few years. This practice is conducive to enhancing the prestige of the factory director, and strengthening his mass foundation. It is also conducive to heightening the employees' position as masters and their sense of responsibility as masters. In addition, it is conducive to continuing to correct cadres' style and heightening their sense of mass line. However, we should not fail to see that the employees representative assembly format in electing factory director also has its limitation, because most of the employees' representatives come from the grass-root levels of the enterprise and they are not familiar with the overall management of the enterprise or with the candidates for factory director. Even if this form of democratic election is adopted, in a certain sense, it sometimes is indeed not able to reflect the will of the voters. For a factory like my factory which has a vital bearing on state plans and people's livelihood, which is an enterprise owned by the state that employs over 10,000 persons and for which 80 percent of the targets are assigned by state command plans, the method of its operation is in the main still the method of "being owned by the state and managed by the state." For an enterprise of this category, the factory director had best be appointed by the state and then confirmed by the employees representative assembly after he has worked for some time in the enterprise. This will better meet the desire of the masses of employees, the requirements of the four modernizations, and the needs of the enterprise,

and facilitate taking into overall account of the interests of the state, the enterprise and its employees. I should particularly stress here that before appointing a factory director, the state must widely solicit the opinions of relevant departments and of the masses of employees, repeatedly consult with them, and thus enable the director it appointed to have a relatively solid, deep-seated mass foundation. The procedure that the factory director be confirmed by the employees representative assembly after he has worked for some time is also very important and we should not regard it as a mere formality. Because democratic centralism is an organizational principle of our party and state, whether or not our employees' representatives can vote to take part in deciding their leader not only shows whether our country's democratic life is sound and healthy, but also fully reflects the position of employees of the enterprise as its masters. Therefore, there is a difference between having and not having the election. As for other administrative cadres at various levels (including deputy factory directors), I hold that they are nominated by the factory director and then approved by the assembly or the grass-root level groups of employees' representatives. A factory is a complete production unit. If the cadres at each level are elected, it may hinder the factory director's efforts to establish a centralized and unified production and management command system with flexible commands and high efficiency.

III. Adopt Diverse Forms and Broadly Rouse the Masses of Employees To Participate in Democratic Management

In addition to fully utilizing the employees representative assembly as a basic form of democratic management, I think that we should also adopt many other kinds of effective forms to widely rouse the masses of employees to take part in democratic management. Through diverse forms and ways, we should collect the wisdom of our employees, understand their ideological trends, desires and demands. This is very important in satisfactorily running an enterprise. Over the past few years, we have adopted the following forms:

1. We have supported the employees' representatives in putting forward motions. Whenever a motion is put forward by them, I personally examine and read it and satisfactorily deal with it. In 1984 alone, they put forward 119 motions. Among them, 26 were accepted and 24, or 92 percent, have been carried out. They have conserved and created over 1 million yuan. Therefore, I decided to allocate 1,000 yuan to award those who put forward the motions.
2. We have satisfactorily held factory affairs meetings. In our plant, these meetings are an advisory means for the factory director. Before handling some important daily affairs and making policy decisions, I always persist in holding these meetings for discussions, widely soliciting opinions and weighing advantages and disadvantages. By making decisions on this basis, the quality of the decisions of the factory director has been vastly improved. In addition to members of the factory administrative leading group, I invite the party committee secretary, the trade union chairman, leaders of relevant offices and workshops, and professional workers of relevant departments to attend factory affairs meetings.

3. We have supported the trade union in organizing employees to put forward rationalization proposals. Over the past 3 years, the masses of employees have put forward 1,048 rationalization proposals, of which 566 have been carried out to conserve and create a value of 4.7 million yuan. The proposal put forward by the three workers in the technology transformation planning group alone has conserved 1.4 million yuan. I decided to award them 1,000 yuan to encourage them.

4. We have strengthened the organization of teams and groups. The workers' management representative system has been set up in all our teams and groups, the duties of the representatives have been clarified and the team and group responsibility system has been established to improve the quality of employees. This work is checked and accepted by stages and in groups in accordance with the standards of the "six-good" team and group.

5. We have established the system of "factory leadership reception day." We have formally fixed the fifth day of each month as the factory leadership reception day. On this day, the factory leadership stops all its other work to specially give interviews to employees to personally get to know their opinions and demands and promptly handle any problem discovered.

The practice of my more than 2 years as factory director has made me realize that democratic management is the foundation for the factory director responsibility system. To satisfactorily run a socialist enterprise, it is not only necessary to have a shrewd and competent factory director who excels at making decisions, but also to have employees participate in democratic management. Only by respecting the employees' position as masters and giving full play to their initiative, consciousness, and creativeness can our enterprise forever have vigor and vitality.

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CSO: 4006/641

ECONOMIC MANAGEMENT

COMPREHENSIVE USE OF ECONOMIC LEVERS EXPLORED

Taiyuan JISHU JINGJI YU GUANLI YANJIU [THE STUDY OF TECHNO-ECONOMICS AND MANAGEMENT] in Chinese No 5, 85 pp 14-17

[Article by Lu Ying [0712 4481] and Hu Jingshan [5170 2529 0810]:
"Exploring the Problem of the Comprehensive Use of Economic Levers"]

[Text] The comprehensive use of economic levers is required to develop the national economy in a planned and proportional way and is also a major postmicroeconomic invigoration task facing macroeconomic regulation and control.

I

Economic levers are exchange and distribution tools used by the state to regulate economic activity and economic relations, a major means used by the state to organize and manage the economy, and also an integral part of the socialist economic mechanism. They principally include prices, taxes, credit, wages and subsidies. Their comprehensive use is of major theoretical and practical significance under China's socialist conditions.

1. The Comprehensive Use of Economic Levers Is an Objective Requirement for Developing a Planned Commodity Economy Conforming to Socialist Economic Laws.

A planned commodity economy are unified and not mutually exclusive or antagonistic. Thus, the law of value must play a role in China's economic life, and a penalty would be paid for violating it. The several major economic construction ups and downs since the founding of the PRC have all illustrated this problem. The law of value plays a spontaneous regulatory role in capitalist countries. The advantage of China's planned economy is that we can use our subjective initiative to consciously use the law of value. The state's control of all economic levers and its use of policies, laws, and decrees to implement them is a specific expression of its use of the law of value. Thus, the use of economic levers is an active reflection of objective economic laws and the result of the objective being translated into the subjective. Success or failure in the use of economic levers reflects the degree of identification between the subjective and the objective, i.e., the degree of understanding of the law of value.

In addition to the law of value, objective economic laws which play a role under China's socialist conditions also include basic economic law, the law of planned and proportional national economic development, the law of material interests, the law of distribution according to work and the law that production relations must adapt to the development of productive forces. These economic laws form China's socialist economic legal system. Indeed, all use of economic levers must obey basic socialist economic laws and adhere to the law of value, but it is reflected particularly in specific economic laws. For instance, prices are reflected most sensitively in the law of value, taxes are expressed quite clearly in the law of material interests, and wages are directly reflected in the law of distribution according to work. In economic activity, no economic laws are isolated, but all are related to, restrict, and affect each other. Thus, all economic levers must also be used comprehensively, otherwise, the socialist economic legal system will be disrupted, the role of all economic levers will be unable to develop well, and socialist commodity production will also be obstructed.

2. Fulfillment of State Plans Is Inseparable from the Use of Economic Levers.

Production relations suited to the present level of China's productive forces are still reflected as, and exist side by side with, the diversified economy component. State enterprise production management is of a fairly independent character. This has divided planned decisionmaking into the diverse decisionmaking levels of central, local, and enterprise, and planned management into the three forms of directive planning, guidance planning, and market regulation. The diverse decisionmaking levels and planning forms require that plan implementation measures also be coordinated appropriately. We admittedly must pay attention to the coordinated use of such means as administrative measures, legal measures, material strength measures, and economic levers to manage China's economy. But how economic levers are used plays a decisive role in overall economic management success or failure. From a planned management perspective, directive planning products must be realized ultimately through markets. Thus, scientific directive plans must be worked out through people's market commodity demands and predict the degree of supply needed to satisfy demand, the supply-production capacity, the demand-consumption structure, and fluctuation trends. In implementation, directive planning must also similarly use economic levers and regulate the economic interests of producers and consumers, in order to strengthen the enthusiasm and consciousness of both sides in implementing plans. Otherwise, directive plans would be hard to realize. In the future, guidance planning will become the major form of planned management and, along with overall reform of the economic system, its scope will grow larger. Since guidance plans are not compulsory, relying on noneconomic measures to implement them would not do, and enterprises can only be spurred to fulfill them through the guidance of economic levers. Although market regulation is not planned by the state, it is indeed not excluded totally from state plans and still involves a "cage" and "bird" relationship. In other words, it must be controlled macroeconomically through economic-interest relations, i.e., through regulation by economic levers, enabling this decentralized and free economic activity to conform to state planning requirements, too. To sum up

in a word, there could be no planning per se, and state plans could not be fulfilled, without the use of economic levers.

3. The Comprehensive Use of Economic Levers Is an Important Way To Do a Good Job of Macroeconomic Regulation and Control. Improving enterprise vitality is a key link in China's economic system reform, and a planned commodity economy requires that enterprises still be controlled macroeconomically after they are invigorated. Moreover, the more enterprises are invigorated, the more macroeconomic regulation and control must be stressed. China's excessive growth of consumption funds fixed-asset investment, credit provision, and currency circulation, and our sharp decline in foreign exchange balance at the end of 1984 have warned us even more profoundly that we can neither, as in the past, rely on administrative orders alone to require enterprise decisionmaking to be subordinate to state decisionmaking, nor can we simply carry out all our microeconomic decisionmaking authority in an overcomprehensive way. Only by using economic levers which link state and enterprise interests can the interests of both be handled properly. Through the use of all economic levers, we can do such things as macroeconomically regulate relations between the state, collectives, and individuals, control proportional relations in major national economic development, and control and guide use of consumption funds and stability of market prices. The use of all economic levers will microeconomically affect enterprise success or failure directly and guide enterprises to change from stressing their own interests to planning such economic activity as production management and investment decisionmaking, making such activity subordinate to macroeconomic decisionmaking. Thus, integrating and coordinating macro- and microeconomic decisionmaking, enabling macroeconomic decisionmaking to better serve microeconomic invigoration, and microeconomic decisionmaking to be consciously subordinate to overall macroeconomic balance, must be aided by regulation of economic levers, otherwise, the situation of "overunification or overliberalization" may reappear.

II

A full understanding of the importance of the comprehensive use of economic levers is admittedly essential, but how to use them is even more important. At present, we cannot merely discuss the problem of whether to use them, or stop at summarizing past experience and lessons, but, based on this experience, we should explore appropriate ways to use economic levers comprehensively. Thus, we think the following problems should be stressed and mastered.

1. The Relationship Between Means and Ends Should Be Handled Well, and Consistency Between the Use of Economic Levers and the Coordination of State Plan Targets Should Be Ensured.

Economic levers are merely means, and consistency with national economic planning targets must be maintained in their specific use. Certain problems which have appeared in our use of economic levers over the past few years have often been caused by inconsistent planned target coordination. For instance, the scope of capital construction has been controlled, yet has been out of control, year after year. The major cause is increased extra-budgetary

fund projects, but runaway bank loans are also an important factor. The key to the problem is not that there have been too many bank loans per se, but that the use of the credit lever has been uncoordinated and inconsistent with state capital construction plan targets, thus causing conflicts between them.

2. Development of the Respective Functions of Economic Levers Should Be Stressed.

There are limits in realizing the functions and developing the roles of all economic levers. Prices are used principally to express commodity value and carry out exchange, i.e., to regulate supply and demand and carry out economic accounting; taxes are the major means of distributing national income and are used to regulate enterprise income distribution and ensure state revenue; through loan amounts and interest rates, credit raises and distributes social funds and promotes production development; wages are used principally to link enterprise and producer interests, to correctly handle relations between the state, enterprises, and producers and, moreover, to control consumption funds; subsidies are used to support low prices of products in urgent need of development and developing products, and to make up consumer differences due to actual wage decreases resulting from price regulation. Our past misunderstanding of the respective functions and roles of economic levers, and not regulating and correcting them, resulted in difficulties in their respective use. For instance, we one-sidedly stressed the accounting and distribution functions of prices, striving to stabilize prices in order to facilitate accounting. Setting procurement prices of primary agricultural products very low was regarded as a way to increase revenue; moreover, very low, fixed consumption prices, creating purchase and sale inconsistencies, were subsidized through public finance. Consequently, low-priced procurement limited production, and low-priced marketing also caused serious waste and unhealthy circulation tendencies. To a great extent, this was caused by using the price lever as the tax lever, not only causing the tax lever to be underdeveloped, but also destroying the function of the price lever. The comprehensive use of economic levers requires a rational division of labor between them and not a mutual substitution. They should be allowed to attend to their own duties and develop their respective functions and roles.

3. The Coordination and Use of All Economic Levers Should Be Focused on Fixed Targets.

Economic levers move in a general national economic system which has intricate internal relations. A lever can only regulate one aspect of the economy. Moreover, its regulation quality and range are limited and it sometimes also has a negative role. Thus, it can be said that if any lever is uncoordinated with other levers, none of its roles can be developed well. We neglected coordination in the past, causing development of the roles of all economic levers to be limited specifically and even to impede each other. For instance, small breweries rushed to open in some areas for a period of time. In order to restrict their unchecked construction and production, we restricted bank loans for them. But we still calculated and collected income taxes from them based on the 20 percent rural township enterprise tax rate, and did not restrict them based on the high, eight-grade, above-quota progressive

tax rate. This admittedly involved the tax system of that time. But in this case, taxes played a development-promotion role, which conflicted with the method of restricting bank loans. Such "conflicting regulation" is precisely the use of economic levers which must be avoided. Thus, while stressing good development of the functions and roles of all economic levers, we should also choose the appropriate one, and use primary and secondary ones in coordination. Once again, prices and taxes can both regulate production. But using the price lever alone may cause high prices which limit consumption, encouraging unchecked production; low prices which encourage consumption may also cause contradictions which effect production enthusiasm. This requires that the price lever be regulated in coordination with such levers as taxes. The price lever can raise the production tax rate of these products, and the tax lever should reduce their taxes and give favorable terms.

4. Quantitative Mastery Must Be Stressed.

As important measures in the system of economic regulation, all economic levers are market-mechanism parameters. These parameters directly affect the operation of market mechanisms, the planning mechanism, and even the overall economic mechanism. If they are irrational, they not only will disrupt the market mechanism, but also will conflict with the planning mechanism and ultimately cause the operation of the overall to be unhealthy, affecting the healthy development of the national economy. Thus, in addition to the proper and relevant state economic policies and essential administrative measures, the comprehensive use of all economic levers must also be appropriate quantitatively. Quantitative limits, such as price, tax, and interest rate limits, and loan and bonus amounts, must be mastered. Our use of economic levers over the past few years has often not stressed quantitative research. Prices had to be raised somewhat once the raising of prices was mentioned, bonuses and subsidies had to be broadened somewhat once they were mentioned and somewhat more bonuses had to be issued once, the issuing of bonuses was mentioned, resulting in many unhealthy consequences. Although price subsidies for agricultural sideline products have played an important role over the past few years in ensuring the people's standard of living and maintaining social stability, excessive price rises have caused heavy burdens for national finance. Moreover, they have also affected commodity price relations and definitely affected the national economy. Also, excessive wage provision and runaway consumption funds have caused much market pressure. These examples all show the importance of mastering quantitative limits in our comprehensive use of economic levers.

5. Relations Between Stability and Flexibility and Between Centralization and Decentralization Should Be Handled Well.

First, relations between stability and flexibility should be handled well. In other words, the use of most economic levers and the formulation of economic policy should be relatively stable for a specific period, in order to create normal and stable economic conditions and allow localities and enterprises to make decisions in a planned way. For instance, after being rationally adjusted, such things as the prices of major products of importance to the national economy, the basic tax system, and the basic wage system

should be relatively stable. But stability is relative and, due to economic development needs, the use of economic levers should also be adjusted flexibly. For instance, such things as specific tax category collection, forgiveness, and tax rate fluctuation, and credit interest rates, should be quite flexible and readjustable at any time according to economic fluctuations. Second, relations between centralization and decentralization should be handled well. Major economic policies and measures must be carried out through centralized, unified leadership in order to prevent diverse administration, each going his own way, and vertical inconsistencies and horizontal imbalances. Thus, the state should carry out centralized management of such things as prices of major product and the principles of basic tax rates and the credit system. But the management conditions of all areas, departments, enterprises, and products are different, and their economic development is also imbalanced. Therefore, premised on unified leadership, there should also be more flexibility and less "stereotyping", in order to give localities, departments, and enterprises appropriate maneuverability. In prices, for instance, areas and enterprises should have the authority to regulate seasonal commodity price differences based on seasonal fluctuations, the authority to regulate qualitative price differences based on the principle of preferential prices for high quality, and the authority to flexibly regulate market prices within stipulated limits based on market demand. In the area of reducing taxes, tax laws can be the stipulated principle, while specific implementation can be the stipulated principle, while specific implementation can be flexibly controlled at the basic level.

III

In order to improve the comprehensive use of all economic levers, work in the following areas should now be done well.

1. Based on the Classified Management Principle, Jurisdiction of Economic Level Management Should Be Properly Divided.

The jurisdiction of the Central Committee, provinces, localities, and counties must be clarified. We think that management jurisdiction should be divided according to the principle of guidance planning, i.e., management jurisdiction of guidance planning targets which must be balanced throughout China should be centralized in the Central Committee, and those, which only have to be balanced in one province or locality should be allowed to be fulfilled by the province or locality should be allowed to be fulfilled by the province or locality, which can regulate and use all economic levers for a specific period and to a specific extent.

2. Economic Regulation Organizations Should Be Established as Soon as Possible.

Recently, the State Council established an "Economic Regulation Office," and the State Planning Commission also set up an "Economic Regulation Bureau." The State Council has decided that planning commissions will be involved in the coordination work of the comprehensive use of economic levers. At present, local coordination organizations at all levels are still testing and

exploring. In order to enable the work of the comprehensive use of economic levers to be truly carried out in fact, we think that local economic regulation organizations must also be led directly by governments at all levels, involve planning departments, strengthen contacts with all departments having economic-lever functions, such as public finance, banking, pricing, labor, goods and materials, industrial and commercial, and statistics, and use such forms as the joint office conference system or trade classification to strengthen macroeconomic control. This organization will be principally responsible for formulating relevant policies, laws, and measures for the comprehensive use of economic levers throughout the province, formulating plans for use of economic levers, conducting periodic research on major problems which arise in the use of economic levers and unifying work on coordination and use of economic levers. Moreover, it should also carry out a major reorganization of internal planning commission organizations, appropriately reduce the number of special offices and strengthen and replenish comprehensive organizations. It must especially establish economic-regulation organizations to be responsible for routine work in coordination of economic levers.

3. A Strong Information System Should Be Established.

Economic information and predictions are the basis for using economic levers. Effective information and accurate predictions enable economic information and prediction work, a very good information system must be established. Provincial information centers should be set up in planning departments which are responsible for coordination and use of economic levers, forming a network joining departments, bureaus, localities (cities), counties and enterprises, and enabling information collection and feedback systems to be perfected. Moreover, microcomputers should be popularized as soon as possible in order to improve information processing, detection, and search quality and transmission speed.

4. Planned Targets and Plans for Use of Economic Levers Should Be Issued Simultaneously.

When formulating plans in the future, planning departments should be closely integrated with the coordinated use of economic levers. When issuing planned targets to basic-level enterprises, planning departments must simultaneously announce and issue plans for use of economic levers within their respective jurisdiction, and put the timely and appropriate use of economic levers in an equal position with the formulation of plans. This will enable enterprises to know as soon as possible the state's intentions and the effect of its use of economic levers on their economic interests, enable their production management activity and decisionmaking to be consciously brought into line with state plans and thus, enable their decisionmaking to be based on such things as their own funds, equipment, and technology.

5. A Sound Economic Supervision System Should Be Established

Economic supervision implies economic management and is found wherever the latter is found. The use of economic levers is inseparable from economic

supervision. In order to ensure the implementation of all economic levers, the establishment of a sound economic supervision system must be an urgent problem.

6. Ideological Transformation Should Be Stressed, and Cadre Quality Improved

Success or failure of the people using them. Thus, departments and concerned leading comrades that use economic levers must gradually transfer their ideological emphasis from the use of administrative measures to the use of economic ones. Moreover, they must also stress improvement of cadre quality, in order to gradually raise standards in the use of economic levers and adapt to economic work needs under new conditions.

12267/9435

CSO: 4006/492

ECONOMIC MANAGEMENT

OBSTACLES HINDERING SHANGHAI'S ECONOMIC DEVELOPMENT

Shanghai SHIJIE JINGJI DAobao [WORLD ECONOMIC REPORTER] in Chinese 21 Oct 85
p 5

[Article by Shu Hanzheng [5289 3352 6927]: "Some Obstacles to Shanghai's Becoming an Economic Center"]

[Text] [Summary] One of the obstacles is the serious backwardness of the city's public utilities. In addition to inherent insufficiencies, there are manmade dislocations. But instead of proceeding from the social benefits that ought to result from public utilities, present policies emphasize the "equality" of all industrial enterprises, and "milk" them, demanding as much profit as possible. This has lead to strenuous efforts by public utility units to cut spending, and has made it impossible to make innovations and gain maximum social results. [End of summary]

The daily increasing contradiction between the backwardness of Shanghai's public utilities (mainly public transportation, gas and water), and the economic development strategies of the city as a whole has been a growing cause of concern. In regard to this problem, this reporter recently visited the Municipal Public Utilities Bureau and the relevant departments of the city government, learned about quite a few noteworthy situations and heard a number of thought-provoking views.

After more than 30 years of development, Shanghai's public utility units have a total of 85,000 staff and workers, 271 public transportation routes and a peak daily passenger capacity of 15million people. Maximum daily supply of water is 3.9 million tons, while the daily maximum supply of gas is 3.56 million cubic meters.

"Walking the Tightrope" of Oversaturation

The long-term tendency to neglect basic urban facilities has been very detrimental to public utilities, has created serious deficiencies in Shanghai's public utility system and has led to shortages in supply that have not been able to be resolved for some time.

Public transport: the increase in carrying capacity of public transportation has been smaller than the increase in ridership. The average yearly increase

in passenger flow has been 10 to 12 percent, while the public transportation carrying capacity has increased usually by 8 to 9 percent. There are 43 routes within city districts, and during peak hours there are over 11 passengers per square meter. During off-peak hours, there are 30 routes for which there are over 7 passengers per square meter. In addition, the winter-time peak period has developed into a yearround phenomenon, while morning and evening rush hour crowds now are becoming day-long crowds.

Gas: Only 52 percent of the city's total population has gas at home or at work. Many units cannot install and utilize new advanced equipment on time due to gas shortages. By making full use of existing potential, the Wusong and Yangpu Gas companies have increased output from the daily 120,000 cubic meters right after liberation to 810,000 and 780,000 cubic meters, respectively. However, existing facilities have already been exploited to the maximum and cannot tolerate any further expansion of "potential."

Water: The average daily supply capacity for running water is 3.9 million tons, while peak daily consumption of water this summer (limited by conservation measures), exceeded 4.2 million tons. Water pressure and quality in quite a few districts were low. Water control facilities are often worked beyond the saturation point, and the "tired" look of late-delivered water has been referred to as "walking the tightrope."

"Squeezed-out Profits"

There are, of course, various complex factors that have created this situation, but the most important is that present policies do not proceed from the social benefits that ought to stem from public utilities, but rather stress the "equality" of all industrial enterprises, and "milk" as much profit as possible from them. This has created contradictions between service principles and unit profit, and between social benefits and economic results. If more buses were provided crowding would be reduced, but enterprise revenue would not increase while costs would grow greatly. This would be reflected in enterprise economic effectiveness as a fall in profits. Because of last year's creation, extension and adjustment of 28 routes, the public transportation company loses approximately 4.5 million yuan per year.

The nearly 70 million yuan in tax revenue handed in to the state by the public transportation company last year under extremely crowded conditions has been ironically referred to by passengers as "squeezed-out profit." However this kind of profit cannot last. From 1980 to 1984, for example, total public transportation mileage traveled increased 28 percent, but average per capita profit decreased 9.5 percent. The financial loss per cubic meter for public gas use was more than 24 yuan; the total figure for last year reached 6.33 million yuan. In order to meet the goal set by the city government to increase the number of gas users to 60,000 households one of the government's "15 big tasks", gas company losses will increase each year by 530,000 yuan. Current economic policy stipulates that the more profit public utilities and industrial enterprises make, the more returns workers will receive, which must be considered a profound contradiction. The crux of the contradiction is that in encouraging public utilities to make more money, social benefits should also be emphasized.

"To Pulling the Wagon or Milking the Cow"

Quite a few experts abroad have studied the relationship between the amount of time employees use going to and from work and productivity. Soviet specialists believe that for every excess 10 minutes workers use in going to work, their productivity will be reduced by approximately 1.5 to 4 percent due to exhaustion. After investigating, some Japanese have come to the conclusion that for every hour a worker stands in a full bus or train (not yet overcrowded), he expends the equivalent in calories of approximately 1 day of labor. Using these types of calculations how many more losses are being incurred every month and every year in Shanghai?

Gas enables each residential household to save approximately 730 hours of housework per year, for a savings of coal of 0.77 tons. Serious problems are caused by poor-quality running water. Due to the absorption of sea water from the winter of 1978 to the spring of 1979 and an excessively high amount of chloride in the city's water supply, industry in Shanghai lost 14 million yuan.

It would be truly difficult to calculate the amount of direct and indirect losses to economic development and the people's living standards caused by the backwardness of Shanghai's public utilities, but the facts make it increasingly clear that public utilities should be more like a horse pulling the wagon of the city, rather than a sick cow that has been milked dry.

Give Priority to Developing Public Utilities

1. More importance should be attached to public utilities. Given the limited amount of state funds available at present, preferential consideration should be given to investment in public utilities. Relevant regulations should be designed to ensure their rightful place in the development of the city's economy.
2. "Let public utilities support themselves." In light of the function of public utilities in serving society and their inability to increase profits at the same time, policies should encourage the utilities to maximize social benefits. Their tax revenues and retained profits should be differentiated from those of industrial enterprises, and should be primarily linked up with social benefits provided.
3. Some practical measures in Shanghai have to catch up with the times. For example, after implementing the CPC Central Committee rule stopping any price changes for monthly tickets in Beijing, Tianjin and Shanghai, both Beijing and Tianjin began offering financial subsidies, while to this day, Shanghai has done nothing. As for the fuel problem, when oil use exceeds the 1982 base figures, negotiated prices are used. With the continued development of public transportation, if this persists, the burden will be unbearable.
4. The overall resolution of problems, dealing with both cause and symptom. Problems regarding such things as the streets, bus stops and traffic management can only be resolved by exerting a determined effort. We cannot expect that things will always clear up by fiddling a bit with the winter-time peak

passenger problem, or the water supply problem during summer peak usage, or by calling for reduced gas usage during shortages. This is "just getting by every year by complaining during times of peak usage."

While reviewing the Shanghai work report, Premier Zhao suggested that we study the possibility of Shanghai becoming an economic center and the obstacles hindering it. Changing the backwardness of Shanghai's public utilities is without doubt, an important and urgent task in the overcoming of those obstacles.

12221/13045

CSO: 4006/457

SPECIAL ECONOMIC ZONES

SHENZHEN PRICE REFORM STRATEGY DISCUSSED

Guangzhou NANFANG JINGJI [SOUTH CHINA'S ECONOMY] in Chinese No 3, Jun 85
pp 26-30

[Article by Huang Zhanqiang [7806 6363 1730]: "Price Reform Has Vitalized the Shenzhen Market"]

[Text] Like the rest of the nation, the Shenzhen Special Economic Zone [SEZ] for years enforced such stringent price control that the prices of many commodities were far removed from value, production was impeded and circulation blocked.

After 2 years of preparations and 4 years of reform, Shenzhen so far has basically resolved the price problems it inherited from history. Because it had a clear guiding ideology and went about reform in a sure and steady manner, the reform program has been fairly successful. Anyone who has been to Shenzhen notices the vitality, dynamism and prosperity which prevail in the zone at present.

I. Price Reform Is Inevitable

Formerly a small border town with 20,000 people, Shenzhen became a municipality in March 1979, followed by the establishment of the special economic zone as an experiment in August 1980. In Shenzhen's early municipal days, more than 100,000 laborers poured into its various construction sites within a short time, market demand shot up, and supply-demand gaps widened considerably. In particular, short supply were non-staple foodstuffs and building materials. Few commodities had list prices while a large number had market prices. All this and the influence of the Hong Kong market sent Shenzhen commodity prices soaring. The cost of living index, for instance, rose 26 percent in 1979 compared to 1978 and jumped another 22 percent in 1980. As large-scale construction projects gradually got underway, building materials became scarce. Even as the demand for cement climbed from 20,000 tons to 900,000 tons, however, the buying and selling of the commodity remained a monopoly. Moreover, it was distributed in accordance with Bao'an County's original targets. Since the ratio of demand to distribution was roughly 10 to 1, the progress of large construction projects was seriously affected. At the time, market prices were characterized by confusion, with the prices of many commodities reflecting neither value nor the supply-demand

relations. The most glaring manifestations of price confusion were that the prices of some commodities were unreasonable relative to those of others, price differences were negligible, and good-quality products commanded the same prices as their inferior counterparts. To illustrate, the list price of 100 jin of rice was 11.5 yuan, while that of one cubic meter of stone was 23 yuan. In other words, 1 jin of rice can fetch just 5 jin of stone, and 150 jin of rice only a grade-A cigarette. Agricultural products were underpriced and peasants suffered. The procurement and selling prices of many agricultural sideline products bore no relationship to each other and differences were written off as a policy-induced loss. Suppose every resident was to be provided with 100 jin of rice. If the rice involved was purchased at a normal price, the gap amounted to 13.32 yuan. If the rice was purchased at above procurement prices or at negotiated prices, the differences would be 21.87 yuan and 25.82 yuan respectively. The average deficit for these three varieties of grains was 17.97 yuan per 100 jin. Government subsidies on grain alone amounted to 9.5 million yuan a year, while vegetable subsidies absorbed another 1.28 million yuan. These subsidies constituted a heavy financial burden on the treasury. Had the price control system been allowed to continue, we would not have been able to use prices as a mechanism to regulate the market, the initiative of localities and enterprises would remain suppressed, and the development of the commodity economy would have been hindered. Hence the inevitability of price reform.

II. The Guiding Ideology and Principles of Reform

Reform was guided by the idea that realities, not theoretical concepts, should be our point of departure at all times. With a socialist market behind and the international market in front, Shenzhen is sandwiched between the hinterland and Hong Kong. Separated from the New Territories only by a bridge, Shenzhen maintains frequent human contacts and intimate economic relations with Hong Kong and is often susceptible to influences from the Hong Kong market as far as prices are concerned. Since Shenzhen is situated at the meeting point of two social systems and two price systems, reform must take into account all these characteristics and adhere to the following principles: adjust unreasonable price ratios systematically and gradually, based on the objective demands of the law of value, by observing the principle of exchange of equal value and following supply-demand changes in the market; and bring to an end discrepancies between the procurement and selling prices of agricultural sideline products, and relate prices to wages. Those principles must be achieved in a way which takes into consideration both the financial capability of the government and the people's ability to pay. Price reform must not come at the expense of living standards. Instead it should be accomplished gradually on the strength of production growth. The basic principle of price adjustment is to do whatever is reasonable. When we say reform, it certainly does not mean that everything must be overhauled at the same time. We differentiated between different commodities, sought truth from facts and made detailed analyses. We raised prices where they should be raised and lowered them where they should be lowered, avoiding chain reactions and sequential price hikes. The demand of reform is to do everything possible to achieve price stability. We correctly dealt with Shenzhen's price relations with Hong Kong and the interior, bearing in mind its special position and other characteristics. We rationalized Shenzhen's prices with

regard to those in Hong Kong and the interior by following the rule that industrial products are more expensive in the zone than in Hong Kong and less expensive than in the interior, while the reverse is true for agricultural sideline products. With that as our basis, we gradually and in a qualified way pegged our prices to international prices, depending on the circumstances of the commodity in question.

III. The Steps and Methods of Reform

As price reform impacts the entire national economy and affects countless households, an enthusiastic but cautious attitude is called for. We opposed conservatism and passivity and overcame the force of habit. We were fearless and had the courage to innovate and reform boldly. Under the overall planning of the SEZ party committee and capable leadership, we went about reforming the price system in an organized, systematic way. After studies and analyses, we separated commodity prices into different categories according to the seriousness of the historical problems inherited, the extent of irrationality, and degree of urgency and importance. In the spirit of tackling the straightforward first and then the more complicated, we began by zeroing in on small commodities, common agricultural products, articles of daily use and commodities in short supply, reserving for later action key materials, industrial products of daily use, rationed goods and other products where supply equaled demand. A comprehensive plan was devised and the reform proceeded in stages.

Price reform requires the existence of certain conditions. Only by seizing the right moment and making the best use of the situation can one reap the expected benefits. It was not until after 2 years' in-depth studies and repeated comparisons that we shifted our focus to experimental reforms. The entire reform program can roughly be divided into three stages: experimental reform, limited reform, and wholesale reform. During the stage of experimental reform, pilot projects were carried out and piecemeal changes affecting a handful of commodities were made within a small area. In thus tinkering with the system, the reformers in most cases were acting rationally but illegally, and changes were made in a quiet, discreet manner. During the stage of limited reform, reforms were introduced in certain sectors, commodities, trades and industries. They were praised by some people and opposed by others. Some of the changes were both rational and legal, while others were rational but not legal. Wholesale reform means taking a big step forward by making changes across the board. The rationed supply of grain, etc., at list prices on the production of a coupon was abolished and the dissociation between procurement and selling prices was eliminated. These reforms were both rational and legal, and since they were popular among the people and had the support of the higher authorities, we gave them widespread publicity and carried them out confidently, knowing that we were doing the right thing.

The three stages of price reform were:

Stage 1, 1981-1982: The emphasis was on experimental reform. We took one step at a time and made changes along the way. Whatever worked was

popularized; whatever produced no clear gains was reviewed and gradually perfected.

First, we conducted pilot projects in the three major commodity categories of vegetables, aquatic products and food, where supply always fell short of demand.

1. Decontrolling prices. In the broad category of fruits and vegetables, we regulated the prices of vegetables while lifting price control on fruits. Fresh produce was controlled while dried goods were not. Among fresh vegetables, we controlled only hardy ones and excluded their finer counterparts. Even the number of controlled hardy vegetables was slowly reduced, from 72 to 27 in 1981 and 18 in 1982.

In the category of aquatic products, marine fish were controlled but not freshwater fish. Among the former, price control extended only to high- and medium-grade fish, while inferior low-grade fish were excluded. In the meat category, fresh and cured pork were controlled; stewed and frozen pork were not. Price control stayed on chickens, but ducks and geese were decontrolled. Fresh eggs were controlled but not salted eggs.

2. Expanding price differences. With enlarged price differences, the production of such high-grade vegetables as chives and tomatoes, which had disappeared from the market for a long time, has gradually resumed. This is the beginning of the end of the dominance of the "water spinach" in the market. Seasonal price differences were also increased from the original 30-50 percent to 70-100 percent and even above, as the case may be. This pricing mechanism encourages off-season production and is an effective way of solving the problems of peak-season over-supply and off-season shortages. Price differences at the retail level were expanded from 25 percent to 33 percent. To unleash the sales enthusiasm of retail departments, a bonus of 0.2 yuan was offered for every dan of goods sold. As a result, the amount of discarded rotten vegetables dropped sharply. In 1981, of every dan of vegetables which they sold, state-owned companies had to discard 11.5 jin on the average. That figure fell to 5.5 jin in the second half of 1982. Seafood companies boosted price differences between high- and medium-grade fish, on the one hand, and low-grade fish, on the other, starting at the procurement end. In the past, good-quality fish in demand in the market was unavailable, while low-grade fish had to be sold as fertilizer. Now that prices are more spread out, these problems have been eliminated. In the retail market, unified prices were abolished and replaced by a system under which products are graded and prices negotiated accordingly. Food companies widened price differences between various grades of meat. Without changing the price of 106.34 yuan for meat in general, the price of one jin of lean meat was increased three times, from 1.6 yuan to 2.4 yuan, while that of one jin of fatty pork was reduced from 0.9 yuan to 0.7-0.65 yuan. To buy lean pork, people in the past had to stand in long lines, and even then they might not be able to get it. On the other hand, fatty pork had to be thrown out for lack of buyers. Now all that has changed: reform has successfully guided consumption and regulated supply and demand.

3. Raising procurement prices and allowing price floating within a specified range. Procurement prices for one dan of vegetables averaged 9.64 yuan in 1981, up 25.5 percent over 1980, and 9.46 yuan in 1982, down 1.9 percent compared to 1981. The procurement price for aquatic products was 18 yuan in 1981, an increase of 3 percent over 1980, and 17.44 yuan in 1982, down 3.2 percent compared to 1981. Moreover, prices are allowed to float within 30 percent of list prices. Procurement station masters are to exercise the regulatory power flexibly according to supply-demand conditions.

In the course of experimental reform, we became convinced of the desirability of taking the initiative to adjust upward procurement prices which were patently unreasonable. This helped our effort to narrow the price scissors in the exchange of industrial products for agricultural products, enabled producers to benefit tangibly from price increases, and stimulated enthusiasm. We did not worry even when the production of certain commodities had not risen in the wake of price increases. Nor did we lose our cool when we came under criticism. We must have faith in price as the most effective market regulatory mechanism. The subsequent large increase in output and procurement and the gradual bridging of supply-demand gaps justify that faith.

During the stage of experimental reform, we also decontrolled the procurement prices of such agricultural products as tobacco leaves, water weeds, jute, and dried muci [2606 5412], decentralized the power to regulate small commodities, adjusted the price ratios of some commodities, expanded the range of preferential rates of certain foreign exchange certificates, allowed the supply prices of means of production purchased in excess of targets in the national plan to float within a set limit, imposed a maximum price on local materials such as sandstone after adjusting their prices downward, permitted some tourist service charges to float, and decontrolled all repair and maintenance charges, and let them be determined by the market.

As a result of experimental reforms, the economy of the zone became more and more active, with various enterprises poised for take-off. Price increases began to slow down. Double digit increases in the retail price index were replaced by single-digit increases. Before the reform, the consumer price index soared 17.1 percent and 13.7 percent in 1979 and 1980 respectively. After the reform, it rose just 6.8 percent in 1981 and 7.8 percent in 1982. In the three categories of vegetables, fish, and meat in particular, which were selected for trial reforms, prices became more reasonable, with supply and demand gradually achieving a balance.

Stage 2, 1983-October 1984: On the basis of the experience we had acquired, we gradually quickened the pace of reform and tackled the prices of different groups of commodities. The thrust of this period was the decentralization of price control authority, reduction of the number of controlled prices, and expansion of the scope of price reduction. In decentralizing price control power, we were concerned to control the important and decontrol the less important and to minimize control and maximum freedom. We were also guided by the need for variety, flexibility, relative stability and good management. We decided on two price management methods, depending on the varying impacts of different categories of products on the national economy and people's livelihood. One is planned prices, subdivided into fixed prices and

controlled prices. The former fall under the jurisdiction of the central and provincial governments, while the latter are the responsibility of the SEZ government. The second is free prices, which comprise negotiated prices and market prices. The former are decided through consultation by the relevant departments in charge, trade associations, industrial and commercial enterprises, the domestic and foreign trade sectors and localities. The latter are to be fixed by the enterprises and producers in question in light of the supply-demand conditions.

Specifically, we carried out the following reforms regarding the scope and method of price management:

1. Fixed prices. The state, province and municipality continue to fix the prices of important commodities and the charges of crucial services which impact the national economy and people's livelihood, such as railway fares, shipping charges, air transport, posts and telecommunications, grain, edible oil, meat, fuels, rents, water and electricity, medical services, school tuition and municipal transportation. However, a more flexible approach was adopted toward the pricing of such key means of production as steel products, cement, timber, coal, and petroleum: price control applies to whatever is bought in accordance with the plan, while prices for the amount in excess of the target will be allowed to fluctuate within 20 percent of the fixed prices. The actual prices are to be determined by the company concerned in accordance with the costs of its purchase and the supply-demand situation.

2. Controlled prices, or floating prices. Floating ranges are specified for certain commodities within which enterprises are allowed to set prices. The prices of marine products, for instance, are allowed to float within 70 percent of set prices, up from the original 30 percent. For some high-grade fish, the variation can be 1-fold. In the category of vegetables, the procurement prices of 18 major varieties can float within 100 percent while sale prices can deviate from the fixed prices by 50 percent.

3. Free prices. Other than the two major types of prices mentioned above, most are free prices, which come to account for an increasing share of prices. In 1984, they made up about 80 percent of retail sales, compared to 15 percent in 1979.

Stage 3, beginning 1 November 1984: The more thoroughgoing reforms in this period went hand-in-hand with wage reforms. With the exception of rents and medical services, prices in Shenzhen have basically been straightened out.

The dissociation between procurement and selling prices was brought to an end. The rationing of grain, meat, edible oil, gas, and charcoal at list prices was replaced by free choice and purchase at negotiated prices. Government subsidies to make good the deficit in vegetables sales were abolished in favor of market regulation.

Rice (Grade 3 with a precision of 93): The price of rice per jin was raised from 0.146 yuan to a maximum of 0.29 yuan. As for Grade 3 rice with a precision of 88, its price was increased from 0.17 yuan to a maximum of 0.32 yuan. The actual effective price at the moment is 0.27 yuan.

Peanut oil. Increased from 0.93 yuan a jin to 1.8 yuan, further raised to 2 yuan at the maximum last January. Oil is currently in short supply, so the price trend is up.

Fresh pork. The price of 100 jin of meat in general was raised from 106.34 yuan to 170 yuan. The actual effective price now is 160 yuan. High-grade meat now costs 2.1 yuan a jin, up from 1.4 yuan, while lean meat costs a maximum of 3.2 yuan, up from 2.4 yuan.

Coal gas. The price of a bottle (15.5 kilograms) was adjusted upward from 9.4 yuan (special price, 5.5 yuan) to a maximum of 12 yuan.

Honeycomb briquet. Increased from 0.025 yuan each to 0.06 yuan (effective January 1985).

Between them, grain, edible oil, meat, vegetables and coal gas had their prices increased by 18.54 yuan in all. The increases occurred at a time when workers were earning more as a result of wage reform, hence the people's livelihood was not affected.

IV. The Achievements of Reform

Price reform in Shenzhen has paid off in significant ways. This is because it proceeded surely and steadily, its methods were well-conceived, the conditions were just right and it aligned prices with wages. Among its principal achievements are:

First, it caused no confusion in the market. There was no panic buying, no shortages, and certainly no inflation. On the contrary, the market is lively but orderly, commodities abound, and there is a full variety of goods. In 1984, total social commodity retail sales amounted to 1.8 billion yuan, an increase of 43 percent over 1983 and 11.4-fold over 1979.

Today, the market has become even more prosperous, with the agricultural market in particular enjoying an unprecedented boom. Commodities are available in all their varieties and business turnover is tremendous. It is a picture of prosperity. Total transactions in 1984 involved 67,360 jin with a combined value of 57.13 million yuan, up 1.71-fold and 1.17-fold respectively over 1983. The general price index dipped 9.2 percent in 1984 compared to 1983, slipping 16.8 percent, 9.6 percent, and 12 percent in the first 3 quarters respectively before rising 2.3 percent in the fourth quarter.

Second, the price situation is excellent as prices have stopped rising and have become normal. Despite the sharp price hikes caused by a variety of reasons immediately after the founding of the municipality, we have gradually eased price inflation through price reform, market regulation and the promotion of commodity development, as the following table shows:

Table 1. Overall Social Retail Price Indices

Year	Percent increase over previous year	Percent increase over 1978
1973	+17.1	+17.1
1980	+13.7	+33.1
1981	+6.8	+42.0
1982	+7.8	+43.3
1983	+2.1	+46.3
1984	+5.2	+53.9
January-September 1984	+2.7	-
October-December 1984	+15.8	-

As this table makes clear, the first conclusion we can draw from Shenzhen's price movements over the past 6 years is that in the pre-reform days of 1979 and 1980, the situation was not good and the price index was registering double-digit increases. As limited price reforms went into effect in 1981-82, the situation improved marginally and single-digit price inflation replaced double-digit increases. As the price system was overhauled, the situation changed markedly for the better and the price index dropped from 6.3 percent and 7.8 percent to 2.1 percent and 2.7 percent, respectively.

Third, living standards have distinctly improved. An important guiding principle behind price reform is that under no circumstances will price reform be allowed to bring about a decline in living standards. On the contrary, price reform, accompanied by production development, should lead to a gradual improvement in the people's livelihood. Otherwise, reform will not succeed. This guiding principle was largely realized in Shenzhen's experience. In 1984, the zone's social commodity retail price index rose 53.9 percent over that of 1978. In the same period, workers' wages have grown 3.2-fold. Since wages have risen much faster than prices, the workers' livelihood has improved significantly. Year-by-year comparisons are given below:

Table 2. Comparison of Wage and Price Increases

Year	Average monthly wages of workers (yuan)	Percent increase over previous year	Price increase (%)
1978	47	-	-
1979	66	40.4	17.1
1980	87	31.8	13.7
1981	96	10.3	6.3
1982	113	17.7	7.8
1983	131	15.9	2.1
1984	189	44.3	5.2

Per capita gross national output was 3,109 yuan in 1984, up 32 percent over 1983. With per capita income over \$1,000, the people have attained a comfortable standard of living.

Fourth, it has promoted agricultural and industrial development. Price reform and the adoption of market regulation are economic mechanisms essential to stimulating economic development. The gradual adjustment of irrational product prices has aligned prices more closely with value. In the past, enterprises sold what they produced. Now, they produce what the market wants. In this way, price reform has contributed to the sustained and rapid development of agricultural and industrial production. Shenzhen industries are still in their infancy. In 1984, gross industrial output shot up 151.8 percent over 1983, profits rose 160 percent while taxes increased by more than 100 percent. Hence, output value, profits and taxes all went up.

The gradual increase in the procurement prices of agricultural products, vital to agricultural production, has begun to reverse the tendency to underprice agricultural products relative to other commodities. Peasants have been able to increase their earnings even without raising output. As a result of the gradual adoption of market regulation in recent years, agricultural commodity production has grown more rapidly. Specific data are given below:

Table 3. Increase in Agricultural Output

Year	Gross value of agricultural output (100 million yuan)	Percent increase over previous year	Percent increase over 1978
1978	1.18	-	100.0
1979	1.15	-2.6	-2.6
1980	1.51	+31.2	+27.8
1981	1.30	-13.6	+10.4
1982	1.41	+8.2	+19.4
1983	1.52	+8.1	+29.1
1984	1.95	+28.0	+65.5

Clearly, the Shenzhen SEZ's price reform is a preliminary effort yet to be refined. When the zone's second front separation measures are put into practice to effect the total shift of its economy to market regulation, there are likely to be new breakthroughs in its price and management systems. Only through continuous reform and innovation can we create through action a new price structure and system for China's very own special economic zones. We are moving in that direction.

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CSO: 4006/711

LABOR AND WAGES

WAYS TO FURTHER ADVANCE TRADE UNION WORK DISCUSSED

Beijing GONGREN RIBAO in Chinese 22 Nov 85 pp 1-2

[Article by Hao Jianxiu [6787 1696 4423]: "Advance Trade Union Work One Step Further; Summary of Speech by Comrade Hao Jianxiu on 13 November 1985 at the 3rd Executive Committee Meeting of the 10th All-China Federation of Trade Unions"]

[Text] In almost 1 year's time since the Second Executive Committee Meeting last year until now, the All-China Federation of Trade Unions and trade union organizations at all levels have steadfastly developed all kinds of work centered around the four modernizations program, mobilized the broad masses of workers and staff members to participate in reform and done a great deal of work in strengthening the basic-level trade unions and improving the quality of workers and staff members, in expanding the decision-making power of enterprises and experimenting with the factory management responsibility system, in setting up and consolidating the workers congress system, in guaranteeing the rights of workers and staff members to participate in the democratic management of enterprises, and other areas. Your courageous exploration, constant effort, and steadfastness in creating new things have enabled you to keep pace with the times and open up new situation. I would like to present several suggestions with regard to trade union work from now on as follows:

I. We Should Get a Clear Understanding of the Situation, Have Firm Confidence and Mobilize the Broad Masses of Workers and Staff Members To Strive for Developing an Excellent Situation of Political Stability and Unity and Steady and Proportionate Economic Development

Comrade Hu Haobang pointed out that the nearly 7 years since the 3d Plenum of the 11th CPC Central Committee "represented one of the best periods in the development of the economic and political situation since the founding of new China." I think, every one of our comrades shares this feeling personally. China's economy was at a standstill and out of proportion 7 years ago. Today, a new situation of sustained, steady, and balanced development has begun to surface.

The economic situation is very good this year. By the end of October, the GVIO has reached 90.8 percent of the annual plan, showing an increase of 19.6 percent over the same period last year. As a result of the balanced development of

light and heavy industries, the labor productivity of industrial enterprises registered an increase of roughly 10 percent over the same period last year. The preliminary readjustment of the agricultural production structure resulted in the increased output of cash crops and meat and aquatic products in varying degrees, especially the marked increase of oil-bearing crops. At present, the urban and rural markets are thriving and commodity prices are becoming stable. According to the State Statistics Bureau, the general level of commodity prices in the country from January to August this year showed an increase of 7.7 percent over the same period last year, while the wages of workers and staff members of state-owned enterprises increased 16.9 percent over the same period last year. Discounting the price-hike factor, the living standard of workers and staff members has obviously improved.

The economic situation is inseparable from the political situation; without a political environment of stability and unity, everything will be out of question. Our party is united and so are our people. The people of all nationalities throughout the country are satisfied with the current fine situation and support the various general and specific policies of the party heartily, they are full of confidence and hope about the prosperity of the country and the rebuilding of the nation.

It goes without saying that all sorts of contradictions and problems, however, are ongoing issues. In the course of economic work, effective means to carry out reform and delegate power, on the one hand, and correspondingly exercise macroeconomic control, on the other hand, are still not too well coordinated. Some localities and departments are competing to expand their scope of activities and add on more projects, others are vying to import high-grade consumer goods that are absolutely nonessential. The CPC Central Committee and the State Council, which discovered these problems in time, have adopted appropriate measures to deal with them. Now, the economic situation as a whole is expected to develop a step further for the better.

Certain new unhealthy tendencies have appeared under the new situation. Under the pretext of stimulating the economy, some people have failed to implement the law or enforce bans, engaged in buying and reselling at a profit, indulged in speculation and fraud, carried out corrupt practices and accepted bribes to seek personal gains by using official power. These gloomy, corrupt, and negative phenomena have aroused the resentment of the broad masses of the people. But, our party and state are confident and able to overcome these things step by step and ultimately eliminate them.

The working class is the leading class of the state. The trade union is a mass organization and a class organization of the working class. The present situation calls on us to conscientiously study the guidelines of the party national conference, unswervingly strengthen ideological and political work, carry out education on the situation and policies among the broad masses of workers and staff members, take the lead in boycotting all kinds of unhealthy tendencies impeding reform, safeguard and develop a good situation of stability and unity and mobilize the broad masses of workers and staff members to make new contributions in the four modernizations drive to reinvigorate China.

II. Strengthening Ideological and Political Work, Promoting the Building of Socialist Spiritual Civilization

Powerful ideological and political work is a fine tradition of our party and an important pillar to socialist spiritual civilization. Recently, I noticed several factories in Nanjing and Wuxi which attached great importance to ideological and political work and laid stress on bringing up a contingent of workers and staff members with ideal, moral-integrity education and a sense of discipline as their principal task. They have concentrated on building spiritual and material civilizations simultaneously, done their work punctiliously and penetratingly, explored some new ways and accumulated numerous good experiences.

Nationally speaking, however, ideological and political work has been greatly weakened in recent years. That we have not done well in many of our tasks is mostly due to the slackening and weakening of ideological and political work. The important speeches made by five CPC Central Committee Standing Committee members at the party national conference all emphasized repeatedly that ideological and political work should be strengthened and that material civilization should be built hand in hand. Without strengthening the building of spiritual civilization, the building of material civilization cannot be guaranteed or may have to take a tortuous road.

Based on the demands of the situation and taking into consideration the experience of my inspection at the grassroots units, I am of the opinion that in order to strengthen ideological and political work, we should at this time present several of the most basic demands to trade union cadres at all levels, particularly leading cadres of trade unions at all levels, as follows:

1. They should go deep down to the masses of workers and staff members and regularly educate them on the basic situation and fundamental policies, integrating these with the views of the broad masses of workers and staff members on the important policies laid down by the party and the state in each and every important period and linking these with the issues of the greatest interest to them. They should exchange their thoughts and feelings face to face with the masses in clear and simple language and answer various questions raised by the masses of workers and staff members. They should, by analyzing and comparing things realistically, make the broad masses of the people better understand that the series of principles and policies and practical work of our party in 7 years since the 3d Plenum of the 11th CPC Central Committee are all designed to make the country prosperous and the people rich and to build China into a modern and highly civilized and democratic socialist country with Chinese characteristics.

2. They should have faith in the great majority of the workers and staff members. The working class represents the advanced forces of production and relation of production. The working class's ardent love for the party and socialism is determined by the historical role of the class; the historical role and functions of the class will not be affected by all sorts of temporary negative phenomena existing between them, or because some people among them still remain in a backward state. We should realize that in pursuing the

great cause of construction and reform, we have often failed to pay sufficient attention to the advanced thinking and advanced deeds that emerged every day and every hour among the broad masses of workers and staff nor did we sum them up and publicize them fully. Therefore, we should be good at discovering all positive factor among workers and staff members, encourage healthy trends and protect the advanced. We should use the advanced thinking and advanced deeds of the workers and staff members to educate the workers and staff members so as to strike at and boycott unhealthy tendencies. Some workers and staff members of the Wuxi No. 1 cotton textile plant employing 8,000 workers and staff members has asked to leave the plant to find other jobs themselves due to poor working conditions, rising labor intensity, and poor pay. To cope with this situation, the CPC committee in the plant started to intensify education on ideals and discipline and, while organizing the broad masses of workers and staff members throughout the plant to emulate the advanced people around them. Through study and emulating, the workers and staff members came to realize that the advanced people at their side were actually "flesh and blood and real and dependable." The mental outlook of workers and staff members has now changed noticeably, workers who for a time stayed away from work without leave or good reason to be in business have voluntarily returned to the plant. The Nanjing Chenguang Machinery Plant set up a political school for workers and staff members and has achieved excellent results in carrying out more systematic education on the communist ideological system by means of running a regular school and releasing people from production to undergo training.

3. They should set an example. Trade union organizations at all levels and trade union cadres must take the lead in boycotting unhealthy tendencies of every description and refrain from involving themselves in unhealthy tendencies. The masses are very practical in matters, they listen not only to what you say but also watch how you act. Therefore, cadres must take the lead in upholding the principle of the party spirit and earnestly practice what they preach by starting with themselves. If a cadre does it this way, he will be able to lead a group of people around him. If every one starts with himself, the party style and social conduct can be expected to take a turn for the better soon.

Trade union organizations at all levels must also take note that ideological and political work must be linked with the solving of certain real issues existing among workers and staff members. Daily ideological and political work must be carried out in depth in production, daily life, and other spheres in the most lively and vivid way possible.

The most fundamental task of ideological and political work "is to improve men's ability to understand and transform the world." In transforming the objective world, the working class also transforms itself. So long as working class's task of understanding and transforming the world are perpetuated, the task of transforming the subjective world is also perpetuated. By the same token, the tasks of ideological and political work are also perpetuated and continue to occupy an important position in our undertaking. So, the strengthening of ideological and political work that we advocated is not an expedient measure by any means but a step to meet short-term needs. It is in fact a long-range task. The trade union organizations which united and educated the broad

masses of workers and staff members represent a principal work department of the party in carrying out ideological and political work in the working class and also a capable assistant of party committees at all levels. Comrade Xiaoping and Comrade Chen Yun have both emphasized that ideological and political work, and contingents doing ideological and political work, must be greatly strengthened and they must safeguard the authority of the party's ideological and political work departments. Comrades, the party supports us and our task is a glorious and important one.

III. We Should Put Reform in First Place Above Other Tasks and Mobilize the Broad Masses of Workers and Staff Members to Strive for the Fulfillment of the Seventh 5-Year Plan

One of the major tasks of the Seventh 5-Year Plan is to basically lay the foundation of a socialist economic system with Chinese characteristics that is full of life and vitality so as to create conditions for sustained and steady economic development in our country in the next 10 years and even into the early period of the next century. The Seventh 5-Year Plan period represents a crucial period of overall reform of China's economic system; the overall situation calls on us to put reform in first place above all other tasks.

At present, the trade unions at all levels are mobilizing the broad masses of workers and staff members to actively take part in the reform. What work should be done in our struggle to fulfill the Seventh 5-Year Plan? I think:

1. We should publicize in depth the guiding ideology, the strategy for development, the principles and policies and the tentative plan for reform embodied in the proposed Seventh 5-Year Plan so that every worker and staff member can understand the nature, objectives, and vital significance of the reform and enhance their consciousness of participating in and supporting it. We should mobilize workers and staff members to actively participate in the democratic management of enterprises and perfecting the workers congress system; we should mobilize them to study their business assiduously, master their skills, work diligently and energetically at their own posts and carry out socialist labor emulation centered around the building of material and spiritual civilization so as to achieve a first-rate work level. We should work together with enterprise administrations, concentrate on the two links of raising product quality and reducing material consumption and work energetically to bring up the quality of enterprises, tap the potential of enterprises, and promote the technological transformation and progress of enterprises.

2. We should resolutely boycott all kinds of unhealthy tendencies that impede reform. All sorts of unhealthy tendencies have now appeared in society, if not corrected, they may hamper the smooth progress of the four modernizations drive and the reform as well. Trade union organizations should have a clear-cut stand, unite and mobilize the broad masses of workers and staff members, adopt powerful measures, and resolutely oppose and boycott all kinds of unhealthy tendencies and other phenomena in violation of law and discipline. We should develop the fearless spirit of the working class and have no fear of retaliation and "isolation." Those who created the unhealthy tendencies and

violated law and discipline have fear of mass supervision the most because no matter how well their schemes are concealed, they can only hoodwink a few people but not the great majority of workers and staff members. We have to rely closely on the working class to basically improve the social mood.

3. We should strengthen investigation and study and step up study on the dividing lines of various policies in the course of the reform. Reform, a profound social change itself, is bound to bring about a series of profound changes in economic and social life, modes of work, and the people's mental outlook. Adapting to all this, there is a need to perfect and develop various policies, rules, and regulations. The working class should stand at the head of reform, participate in and lead the reform. The trade unions should give play to their role as a bridge and link between the party and the masses of workers and staff members and focus and reflect the opinion and demands of the broad masses of workers and staff and submit proposals for the party to draw up policies and make policy decisions. The suggestions you made at this meeting about strengthening the work of urban trade unions clearly emphasized the three links: a) participation in and discussion of government and public affairs and active participation in important policy decisions for the reform, development, and building of the urban economic system; b) concern about the overall urban situation and seeing to it that the building of material and spiritual civilization plays a role in building socialist new-type cities; c) steady building of the basic-level trade unions around activities to invigorate enterprises and working hard to lay the groundwork for building up the basic-level units. All these are good suggestions, what we should do now is to implement them one by one in a practical manner and achieve results.

IV. We Should Study, Integrate Theory with Practice, Push Trade Union Work Forward in the Process of Cooperating and Replacing the New with the Old

Comrade Xiaoping put forth "a new demand" at the party national conference, that is, we should study Marxist theory. Comrades are aware that the line, principles, and policies laid down by the party are the products of the integration of the fundamental theory of Marxism with the concrete practice of the Chinese revolution and construction. However, whether or not we can profoundly comprehend the party's line, principles, and policies, whether or not we can explain why the party formulates given policies instead of other kinds and why a given policy must be readjusted instead of another one, why the objective situation changes and so forth, new insights on all these can only be gained through restudying old material. The time and tasks are different now at a time when we aspire to build socialism with Chinese characteristics. We must study more new knowledge, which requires us to master and apply the fundamental theory of Marxism, analyze the new situation, solve new problems and deepen our understanding of party policies.

Recently, the leading bodies of the trade unions at all levels have been taking a further step in readjusting and replenishing cadres to cope with the demand of making cadres more revolutionized, better educated, professionally more competent, and younger. Some middle-aged and young cadres in their prime have assumed leading positions in trade unions at all levels bringing life and vitality to trade union work. It is hoped that the newly promoted comrades

will firmly foster the idea of serving the people wholeheartedly, proceed in all cases from the interests of the people, and never divorce from the masses; they should seriously study Marxist theory and the party line, principles, and policies, make an effort to raise the ideological level and the level of understanding of policies; they should impose strict demands on themselves and develop the party's fine traditions through their own exemplary actions; they should remain modest and prudent, guard against arrogance and rashness, and voluntarily accept the supervision of organizations and the masses of workers and staff members. History puts us in leading positions; we must never fail to live up to the trust and the great expectation of the party and the people.

Many veteran comrades who stepped down from leading positions due to age have made tremendous contributions to China's labor movement and trade union work in their long years in trade unions. They will not be forgotten by us. I hope that old comrades will continue to show concern about trade union work and the upbringing of the middle-aged and young cadres. I am convinced that under the leadership of the party committees, trade union organizations at all levels will definitely push trade union work forward a step further in the course of replacing the old cadres with the new ones and in their cooperation and find a new way for trade union work with Chinese characteristics.

12662/13045

CSO: 4006/569

POPULATION

URUMQI CLAIMS SUCCESS IN POPULATION PLANNING

OWO30642 Beijing XINHUA in English 0630 GMT 3 Feb 86

[Text] Urumqi, 3 February (XINHUA) -- The population growth rate of Urumqi, capital of the Xinjiang Uygur autonomous region in northwest China, dropped to five per 1,000 in 1985, according to the city population planning committee.

"This is 12.6 per 1,000 lower than in 1975, as a result of the family planning policy and birth control measures," said Wang Minli, deputy director of the Urumqi city population planning committee.

The national population growth rate has been reduced from 25.83 per 1,000 in 1970 to 10.81 per 1,000 in 1984.

Wang said that Urumqi's total population is 1.16 million, 73.76 percent of Han nationality and 26.24 percent of minority nationalities, including Uygur, Kazak and Hui.

"To keep Urumqi's population to about 1.3 million by the year 2,000 is our goal," Wang said.

Under population policies, an urban minority nationality couple may have two children, and a rural couple may have three, while Han couples usually are restricted to one child, Wang said.

"A total of 39 family planning centers have been established in the past few years in the city to provide contraceptives, consultation for pregnant women and medical treatment for women," she said.

The city launched the region's first outpatient department for family planning consultation last year.

"The family planning policy is accepted by the people of the city as necessary for China's social and economic development as well as the living standards of its people," Wang added.

/12929

CSO: 4020/224

POPULATION

BEIJING COUPLES HAVE HEALTHIER, FEWER BABIES

OW261212 Beijing XINHUA in English 0656 GMT 26 Feb 86

[Text] Beijing, 26 February (XINHUA) -- About 1,300 fewer babies were born in Beijing in 1985 than the previous year and a survey shows they are getting healthier.

The city's natural growth rate went from 14.36 per 1,000 in 1982 to 8.65 per 1,000 in 1985, Li Zhen'en, a municipal family planning official told XINHUA today.

If the annual birth rate had continued at the 1964-73 rate of about 21 births for every 1,000 people there would have been 217,000 more Beijing babies in the last five years.

Beijing's population had climbed to 9,578,977 by the end of last year, according to the city's Public Security Bureau.

Li said, "the city's residents are now well informed about the significance of birth control and we enjoy overwhelming support."

A sample survey of 3,000 people at the Shijingshan district in the western suburbs indicates that only four percent of the people insist on having a second child, while one third say that one is quite enough. Other couples said they would follow the government policy.

"How to give birth to a healthy baby is a very important consideration for newly-married couples," Li said. "Consequently, doctors and family planning workers are devoting more time and energy to this."

Since late 1984, both male and female applicants for a marriage license must be cleared by their work units. They must report any physical abnormalities or congenital diseases of their family members. They are also required to have a health check and present a health certificate signed by a doctor.

According to a rough calculation of hospitals in the municipality, about 20 percent of marriage license applicants suffer from a chronic illness. Most of these are successfully treated and have no effect on the ability to produce normal children.

Doctors keep a close watch on pregnant women whose families have had congenital diseases. Ultrasound wave examinations and analyses of the chromosomes of the fetus help doctors discover abnormalities. In these cases the woman is advised to terminate the pregnancy at an early stage.

The Sanlitun neighborhood in east Beijing has had 1,800 births since the pre-marriage health examination started there in 1983 and every one has been healthy.

In contrast, 18 out of 3,700 babies born between 1980 and 1983 had congenital diseases, a neighborhood official said.

Neighborhood consulting stations run by the hospitals provide couples with needed information about child bearing, maternal and baby health care and methods of contraception.

/12929

CS0: 4020/240

POPULATION

BRIEFS

ACHIEVEMENTS IN FAMILY PLANNING WORK--Our province successfully fulfilled the population plan during the "Sixth 5-Year" Plan period. In the past 5 years, the average natural population growth rate was 9 per thousand, 2 per thousand lower than the state plan of 11 per thousand. The number of newborns in the past 5 years was 5.1 million fewer than that of 1970, equal to the total population of seven or eight medium-sized counties. This was also a notable achievement. In general, amount of money needed to rear and educate a person in rural or urban areas is about 5,200 yuan. Thus, the province has saved 26 billion yuan for the state, the collectives, and the individual families with 51 million fewer newborns. Besides, this has eased the current tight situation with regard to housing problems, transportation, education, medical treatment, and employment. This was a great contribution to the four modernizations made by the masses of women at the child-bearing age. [Text] [Jinan DAZHONG RIBAO in Chinese 22 Jan 86 p 1 SK] /12712

BEIJING POPULATION STRUCTURE--According to statistics, the number of staff members and workers in Beijing Municipality has increased to 3,776,000. The permanent population in the urban areas of the municipality has reached 5.725 million people, an increase of 773,000 over 1978. As of the end of 1985, the urban and rural areas of the municipality had 5.6 million laborers, of which 35.9 percent were engaged in the tertiary industry. [Summary] [Beijing City Service in Mandarin 1000 GMT 23 Jan 86 SK] /12712

CSO: 4006/751

TRANSPORTATION

ROLE OF SHIPPING IN URBAN CONSTRUCTION NOTED

Changsha JINGJI DILI [ECONOMIC GEOGRAPHY] in Chinese No 4, Nov 85 pp 292-294

[Article by Pang Zhen [1690 7201]: "The Position and Role of Shipping in Modern Urban Construction with Hong Kong and Shenzhen as Examples"]

[Text] Once Marx said that river and marine transportation have a "magic" power in the establishment of a large city. Chinese and foreign history have proved that smooth flowing waterways and the development of transportation business not only have a "magic" effect on the emergence of a large city, but also to the active promotion of economic and cultural development with foreign countries.

I. Historical Significance of Marine Transportation

China's coastline is very long and we have a lengthy history in the development of marine transportation. Our ancestor invented the magnetic compass, which not only added a "watchful eye" to ocean navigation but also added a glorious page to the world history of marine navigation.

The emphasis on marine navigation in China started from the Sui dynasty to promote foreign trade and the prosperity of the domestic economy. By the Tang dynasty, marine transportation had become the pillar of the country's economy. By the Sung dynasty, marine transportation advanced further and had recorded a carrying capacity of 10,000 dan. Referring to the book entitled "Minghuo Zheng He Zhuan," one can read of Zheng He, the pioneer navigator of our country, and his impressive world renown seven voyages to the west. On seven occasions, he led an ocean-going fleet to the Atlantic Ocean conveying our friendship to the east coast of Africa and the mouth of the Red Sea, greatly promoting economic and cultural relationships between China and the world.

The ancients have said: "with water, a city prospers; without water, a city declines." "cities prosper because of water and water in turn is exploited by cities." This is in fact quite true. Macao, for example, was built a hundred years before Hong Kong, but its development fell far behind the latter simply because of the lack of deep water ports, which limited its water transportation. Xi'an, a historic ancient city, had been the capital of many ancient Chinese dynasties, but its development is far behind the coastal cities of

Shanghai and Tianjin for the same reason--Xi'an has no deep water ports and therefore its water transportation is restricted. In Hunan, Caoqing too was built a hundred years earlier than Guangzhou, but its development also lags behind Guangzhou for similar reasons. Looking around the world, the development of all famous cities abroad is contingent upon the development of marine transportation. Statistics show that among the world's 53 export processing zones, 45 have excellent transportation facilities equipped with harbors and docks or with good passageways linking harbors and docks. All these facts--ancient and modern, Chinese and foreign--prove that the development of marine transportation has a vital impact on the extent and speed of the development of cities.

II. Economic Effects of Marine Transportation

Marine transportation is superior to land or air transportation. It requires less investment, and has a greater carrying volume and lower freight rates, making it the perfect transportation system. According to an analysis, in land transport, a 20-hp vehicle is capable of carrying only 1 ton of cargo, the same amount a train of 1 hp can carry. An aircraft would require 2,000 hp to carry 1 ton of cargo, but water transportation requires only 1 hp to carry 4 to 6 tons of cargo. The Rhine is one of Europe's largest rivers; it is also the busiest inland waterway in the world, transporting cargo with a volume equivalent to that of 30 rail lines. The most developed industrial zone of western Europe is centrally located along the Rhine. Another example is the Mississippi River in the United States, the world's 4th longest river, with its mainstream and branches linking up with the Great Lakes to form a vast inland waterway network, indeed the artery of America's inland waterways with a capacity equivalent to 20 rail lines. In short, the economic gains of marine transportation are vast and the role it plays is very important.

III. The Relationship Between Marine Transportation and the Construction of a Modern City

Transportation is one of the many fundamental infrastructures of a modern city. It is the vanguard of a modern city's construction and development. Today, as the modernization of a city continues, a prerequisite is that basic facilities be developed in balance, fully interconnected and interdependent to guarantee economic development. Only with facilities such as water supply, energy supply, communications and transportation which are developed and interdependent can the mistake of blind development be avoided and can overall superiority be brought into play to open up a new, integrated path of development. The development of a city is contingent upon the development of a harbor and vice versa. Hong Kong, for example, was a deserted, small island in the beginning.

Narrow, sparsely populated and, except for sunshine, seawater, bays and rocks, it had no natural resources at all, not even fresh water. Now, with foreign trade as its lifeline, Hong Kong ranks 16th in the capitalist world in terms of foreign trade, and 2nd in Asia only to Japan. According to 1983 statistics, its total output value was HK\$206.89 billion or a per capital average of 38,939 Hong Kong dollars, greatly illustrating its economic prowess. How is it that Hong Kong, such a small place, can be developed into such a modern light industrial manufacturing center. an active "world special economic zone"

of renown, and a key seaport city in the Far East famed as the "pearl of the Orient"? Most important of all the answers is that Hong Kong has highly efficient modern transportation facilities. It has 8 deepwater harbors, 5 container yards, and more than 70 berths for large vessels. Hong Kong ship-owners now own a fleet totaling 50 million to 55 million GRT, ranking 4th in the world. Each year, 20,000 ocean-going vessels and 100,000 inland vessels call at the port which is 7th in the world in terms of throughput [handling capacity]. It has Victoria Bay, one of the world's "busiest and most efficient" seaports; Kai Tak International Airport, with its advanced equipment and excellent service; and electrical rail systems that link Hongkan, Kowloon, and Guangzhou via Shenzhen. With already well-developed existing transportation, Hong Kong is still not satisfied, and the authorities are planning to build the Kwaichung container yard, attempting to go another step forward in container shipping. It is predicted that upon completion of the plan by 1986, the yard should be able to handle 2.2 million TEU, a capacity that will exceed New York's and rank 2d in the world after Rotterdam. On schedule to be built in 1986-1988 is another container yard equipped with 3 gantry cranes which when completed will enhance the operating capacity of Hong Kong's container yards by 45 percent. Also planned is the construction of the world's largest container yard--Asia Container Yard. Obviously, there is nothing ordinary about the status and function of marine transportation in the construction of a modern city.

IV. The Importance of Marine Transportation in Shenzhen

Shenzhen City faces Dapeng Bay and Daya Bay on the east and the mouth of the Zhu Jiang and Shenzhen Bay on the west. It is located on the coast of the South China Sea, with a coastline of 200 kilometers (including 11 kilometers of Shenzhen River coastline), with many deepwater spots along the coast, providing good shelter and important geographical location, unique enough in abundant resources for the construction of a seaport. Dapeng Bay in particular, a deep water harbor, is deep, wide, naturally sheltered on three sides, and with little silt buildup, is considered by many experts in surveys as the most ideal place to build the largest deepwater port in southern China. Recently, professor Zhang Guowu [1728 0948 0124], of Northern Jiotong University, came to Shenzhen for a survey and concluded: "Shenzhen will be an outgoing type of seaport, a wholly integrated seaport that must link up ports in the Dapeng Bay with Chiwan Port, Mawan Port, and Shekou Port. The construction of port and city is closely interrelated and the development of the city is contingent upon the development of the port. Through the development of the port, full play can be given to its 'four windows' role. Following the construction of Shenzhen Port, economic development of the Special Zone is inevitable. Consequently, it has profound significance for spurring economic prosperity and development in Shenzhen, south China, the whole country, and the entire world." Thus we believe that the construction plans undertaken in Shenzhen, the construction of ports and docks should be given top priority.

Shenzhen is adjacent to Hong Kong and Macao. To build it into a seaport city, a "world special economic zone" with a solid foundation, an "international exchange house" and an "international trading port" on our borders, and a bridge that links China with the capitalist world and fully plays the role of a window for technology, management, know-how, and foreign policy, we must learn and borrow from the Hong Kong experience and do a good job of

constructing the special zone. Presently Shenzhen SEZ is making an effort to build newly-developed industries and to expedite the formation of a liberalized economy, manufacturing "out-going products" and "hot-selling products" to promote on the international market. Agriculture will also be "trade oriented" because Shenzhen faces Hong Kong and has the unique features of multi-channel selling, short-distance transporting, fast market availability, and peak freshness in the export of agricultural products or by-products, reaching a 57.8-percent share of marketable products citywide. Guangming Overseas Chinese Animal Husbandry Farm, for instance, is producing fortified milk and selling it to the Hong Kong market, occupying a 70-percent share of the total market there. Hong Kong has a population of 5.34 million people. Each year, there are no fewer than 2.8 million additional tourists, creating the market with the most potential for Shenzhen's agricultural products and by-products. All of these industrial and agricultural products are being exported by marine transportation.

Shenzhen is one of the native towns of overseas Chinese; there are 120,000 overseas Chinese spread throughout 54 countries and regions. By the year 2000, Shenzhen's population is expected to reach 800,000 to 1 million persons, and including tourists, 1.5 million or more. Its gross agricultural and industrial output value is expected to reach 10 billion yuan or more. Figuring a transport volume of 400,000 tons of cargo for each 100 million yuan, this would mean that the transport volume would reach 40 million tons by the year 2000, or 15.6-fold more than in 1984.

According to 1984 yearend statistics, the throughput of the entire port of Shenzhen was actually only 2.35 million tons, of which 1 million tons was through Shenzhen, 0.75 million tons was through Shekou Port, and 0.6 million tons was through Chiwan Port, giving rise to "port congestion." As the economy develops, insufficient transportation capabilities, especially deepwater dock capabilities, became the most prominent problem. To accommodate the construction of harbors, docks and an ocean-going fleet to the needs of the fast developing economy of the special zone, major decisions have to be made to accelerate harbor and dock construction. We must on the one hand vigorously stress the renovation and expansion of the old port while on the other emphasizing simultaneous construction of the new port, including a passenger and freight dock with an annual throughput of 700,000 tons (for berthing 500-ton class vessels), the Dongjiaotou Dock with an annual throughput of 800,000 tons (for berthing 5,000-ton class vessels), and the Yantian Deepwater Harbor in Dapeng Bay, which allows berthing of 10,000-ton class vessels. By 1986, throughput of the entire port is expected to reach 8 million tons, as planned. Meanwhile, the building of an ocean-going fleet is equally urgent, making full use of existing passenger and freight vessels in 1985 and increasing transportation strength to 100,000 tons with the purchase of 10 new vessels: one 30,000-ton bulk carrier; one 10,000-ton general cargo ship; two large RO-RO ships; four feeder vessels at 200 tons each; and two passenger speedboats, one with 150 seats and another with 280 seats. Also projected are the start of passenger service to Zhongshan, Jiangmen, Zaoqing, Zhuhai and Hong Kong, as well as north and southbound and worldwide freight service, to promote special zone trade with the mainland interior and with the world and to create more foreign currency income.

We should be able to see that the world's economic center will gradually shift from the Atlantic coasts to the Pacific coastal areas. Shenzhen and Hong Kong are located right in the center of the Asian-Pacific zone, and it is anticipated that they both will be able to play an active role on the center stage of the world economy.

HONG KONG

HONG KONG 1986 BUDGET GROWTH

HK270513 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 27 Feb 86 pp 1, 5

[By Financial Editor John Mulcahy]

[Text] Hong Kong's economy almost came to a grinding halt last year, with overall gross domestic product rising by a paltry 0.75 percent, while per capita GDP actually declined.

This was the stark reality of statistics presented by the Financial Secretary Sir John Bremridge, in his final budget speech before retiring in June this year.

The dour economic backdrop did not presage drastic tax measures, however, and the outgoing financial secretary was able to lay on the LEGCO (Legislative Council) table both a small budget surplus for the current year and a benign revenue package.

Sir John also offered some hope in the form of "a year of export-led growth" ahead, with unemployment likely to remain low (at around three percent) and inflation creeping up to about five percent from last year's 3.4 percent.

While smokers, motorists and bankers may have cause for a mild grumble, the overall effect was better than neutral, with small and middle-income taxpayers enjoying improved allowances while business has been spared any further annoyance from the odiously regarded tax on offshore interest income.

Although GDP rose to \$181.28 billion from \$179.93 billion (at constant 1980 prices), the per capita figure dipped to \$33,430 from \$33,544, marking the first year-on-year decline in more than 10 years.

Last year's sluggish GDP growth was in marked contrast to 1984, when growth was at a staggering rate of 9.3 percent.

Domestic export were the foremost collective culprit last year, plunging by five percent in real terms compared with dramatic advances in the two preceding years.

Behind the export reversal was the extreme rise in the U.S. dollar against most currencies, taking with it the linked Hong Kong dollar and impinging seriously on competitiveness.

However, Sir John said yesterday: "The subsequent depreciation of the Hong Kong dollar has helped domestic exports to recover some of their earlier losses in price competitiveness."

Total exports this year are expected to rise by six percent as a result of a 7.5 percent increase in domestic exports and a four percent rise in re-exports.

Last year, overall exports rose six percent, including a 25 percent improvement in re-exports.

Presenting a budget that will please most people, or at least not overtly offend any particular sector, Sir John yesterday projected economic growth of 4.5 percent for this year, and extended this rate through to 1990 as the basis for the government's new five-year strategic forecast.

In arriving at this figure, government economists have assumed three percent growth in the U.S.

The Organization for Economic Development and Cooperation countries are expected to record growth of 4.5 percent in import volume this year, compared with 5.5 percent last year, while the OECD growth rate for imports of manufactured goods is estimated at 6.3 percent, against 7.5 percent last year.

High unemployment rates in most of Hong Kong's markets, and the associated possibility of intensified protectionist efforts, could be an obstacle to a strong export performance this year.

"The protectionist sentiments now prevailing in most industrialized countries, coupled with the upcoming negotiations on the Multi-Fibre Arrangement (MFA), which affects the world's major textile and clothing exporters, including Hong Kong, have added an element of uncertainty for some export trades," Sir John said.

China's substantial trade deficit was also cited as a constraint on Hong Kong's export outlook, and Sir John suggested that after several years of rapid growth, "Hong Kong's domestic exports and re-exports to China are expected to encounter some setbacks in 1986."

From a positive perspective, though, the substantial depreciation in the Hong Kong dollar in recent months, relative to currencies other than the U.S. dollar, will be a distinct advantage in developing European and Asian markets.

"For the purpose of marking the 1986 economic forecast, it has been assumed that the U.S. dollar will show a further, mild, depreciation against other major currencies during 1986 and that the average exchange value of the U.S. dollar in 1986 will be lower than in 1985.

"Thus, exchange rate movements are expected to continue to have a favorable effect on Hong Kong's domestic export performance in 1986," Sir John said.

While acknowledging that the 4.5 percent estimated growth rate for this year was low by Hong Kong's historic standards, Sir John described the expected 3.3 percent growth in per capita GDP as "respectable," and said the consecutive years of rapid growth experienced in the second half of the 1970's and the early 1980's, "were partly related to the very rapid growth in size of the population and of the labor force during those years."

A small increase in several duties, such as petrol and diesel, as well as car and driving licenses, and the favorite whipping boy, tobacco, was far outweighed, Sir John averred, by greater allowances on personal taxes which would benefit 96 percent of those who might expect to pay salaries tax.

For the business community, the decision to repeal the controversial amendment to the Inland Revenue Act which targeted offshore interest should be well received.

According to some observers, the concession on offshore interest provisions was a pragmatic and sensible move, as the tax was not contributing greatly to revenue, and the state of the government accounts is such that the \$200 million cost to the revenue could be taken on the chin.

By raising the personal allowances, Sir John effectively exempted 33,500 taxpayers previously liable for salaries tax, kept another 35,000 potential taxpayers out of the net and gave 534,000 taxpayers a reduction in tax.

The reductions are by no means enormous, but will serve as a psychological boost on the basis that people feel they have benefited from any budget that does not impose a greater burden.

If there is a positive impact on the pocketbook, however marginal, the reaction tends to be highly favorable.

On the economic front, Sir John noted that domestic exports to the U.S. fell by seven percent in real terms last year, and shipments to the UK, West Germany and Japan slumped by 18 percent, 14 percent and 12 percent respectively.

"The decline in domestic exports to these markets was concentrated mainly in the second and third quarters of the year, as the impact of the earlier appreciation of the Hong Kong dollar was felt."

China, meanwhile, came to the rescue of the Hong Kong manufacturing sector, as domestic exports to the mainland rose by 32 percent in real terms, taking Beijing's share of Hong Kong's exports to 12 percent from eight percent in 1984.

But the signs in China, too, were depressing as the year wore on, and from a 96 percent year-on year rise in January, exports to China recorded a decline of 10 percent in December compared with the same month of 1984.

Perhaps the most disappointing aspect of the territory's economic profile last year was the pedestrian growth in domestic demand.

After the doom and gloom years of 1983 and 1984, Hong Kong's population was expected to indulge in a spending binge, but this was not to be, and private consumption expenditure rose only five percent in real terms last year.

The slow pick-up in consumption was reinforced by nil growth in retained imports during the first half of the year, although there was a recovery in the second six months, when retained imports grew by an estimated six percent.

In an effort to explain the mystery of stagnant consumption demand, despite a substantial growth in net wealth the previous year, Sir John focused on four factors:

--Part of the increase in income in 1984 was probably absorbed by the purchase of residential flats and acquisition of new shares.

--Some people appeared to be saving more.

--The slowdown in the population growth rate contributed to the slowdown in private consumption expenditure.

--Gross domestic product and, therefore, personal income, showed only modest growth last year.

Growth in government consumption expenditure was even less impressive than personal spending, at 1.5 percent in real terms. This was lower than the 5.4 percent recorded in 1983 or 2.4 percent in 1984.

This slowdown, Sir John said, reflected the government's policy "to restrain the growth of public spending in an effort to bring the budget back into balance and to avoid the public sector pre-empting too large a share of the resources in the economy."

Public and private sector domestic fixed capital formation, or fixed investment, fell by three percent in real terms last year, after rising by one percent the previous year.

For the current year, Sir John warned that forecasts were again subject to "great uncertainties," and while the general expectation was for continued growth in the world economy, "there is always the possibility that this expectation will not be realized."

He went on: "While Hong Kong's domestic exports to the world in 1986 are likely to more than regain the loss recorded in 1985, this is due more to an expected improvement in the export competitiveness of Hong Kong's products than to the expected increase in world trade activities.

"In this context, the movement during 1986 of the exchange value of the U.S. dollar, to which the Hong Kong dollar is linked, is likely to be the single

most important factor influencing the export competitiveness of products from Hong Kong."

A strengthening of the U.S. dollar would drastically alter growth prospects for domestic exports, Sir John said, while for Hong Kong's domestic economy, the population's willingness to increase consumption and investment expenditure, particularly investments of a longer-term nature, "remains an uncertain factor."

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CS0: 4020/238

HONG KONG

NO 1986 TAX INCREASE REPORTED

Hong Kong TA KUNG PAO in Chinese 3 Sep 85 p 2

[Text] Financial Secretary Bremridge hinted yesterday that the Hong Kong government had no plans to put forth a proposal for tax increase next year. In light of the current revenues and expenditures, he estimated that there would be a balanced budget proposal next year.

At a brief press conference held by the Colonial Secretariat yesterday, Bremridge expressed his personal dislike for a tax increase. He would be unhappy if there were any proposition for tax increase in next year's budget.

He said: A fine economy is one reason for the increase in revenue of the Hong Kong government. In the first half of this year, a surplus rarely seen in visible trade has appeared in Hong Kong. He explained: The primary reasons for this remarkable achievement include: (1) A wide-margin growth in the trade indices involving the export of Hong Kong products to China and the use of Hong Kong as a transit market for China. (2) Hong Kong's adoption of a pegged exchange rate that is linked with the U.S. dollar.

Bremridge said: China has now taken the place of England and West Germany as the second largest market for the export of Hong Kong products. Especially when the economy of Hong Kong's major trade partners has not been as good as expected, the wide-margin increase of the export of Hong Kong products to the China market and the transit trade have been decisive factors for the fine economy of Hong Kong.

He further said: In the first half of this year, the land revenue in Hong Kong has increased by 1.5 billion yuan over estimates. However, because this is not a fixed revenue, the Hong Kong government cannot list it as a regular profit. Furthermore, the Hong Kong government needs a large amount to pay for the tremendous deficit incurred by the building of the subway. Also, a definite amount of the land revenue must be used to pay for the Class B land-exchange right documents. Thus, we believe that the actual revenue will not be a tremendous amount.

Bremridge continued: In spite of the growth in Hong Kong's Gross National Product (GNP), it will still be lower than the formerly estimated 7 percent. However, it will still be a proud achievement. As long as we compare

ourselves to the situation of negative growth which frequently appears in the GNP of other countries, we will discover that Hong Kong is one of the few places in the world which has an increased GNP every year.

Bremridge maintained that the primary reason why the export of Hong Kong products was lower than the estimated growth was because of the weakening of the world economy. He further said that, on the 24th of this month, he would publicize the mid-term economic report, in which he would put forth a revised percentage of growth for the GNP.

9335

CSO: 4006/962

HONG KONG

JOINT LIAISON GROUP TO EXAMINE HONG KONG'S GATT ROLE

HK270451 Hong Kong SOUTH CHINA MORNING POST in English 27 Feb 86 p 1

[By Michael Chugani]

[Text] Hong Kong's independent identity as an independent trading community in the international arena is likely to be a top item for discussion when British and Chinese diplomats hold talks here next month.

It appears British negotiators may persuade the Chinese to allow Britain to sponsor Hong Kong as an independent member of the General Agreements on Tariffs and Trade (GATT).

Although only sovereign states can be full members of GATT, the 90-member United Nations trade agency still allows any separate customs territory with trade autonomy to become an individual member if it is sponsored by its sovereign power.

While Hong Kong does not have that status now, it will however, be a separate customs territory under the 1997 agreement.

Experts, including the executive director of the Federation of Hong Kong Industries, Mr Laurie Mills, have urged that Britain, as the metropolitan power, sponsor Hong Kong as an individual member.

And it looks like this is exactly what the Joint Liaison Group -- a contact group of British and Chinese diplomats set up to oversee a smooth transfer of sovereignty -- will discuss when it meets in Hong Kong between March 11 and 14.

Hong Kong is now in GATT as a dependent territory of Britain. And China has declared its intention to rejoin GATT after an absence of 35 years.

Rather than Hong Kong becoming a part of GATT through China and therefore risk having to face trade curbs imposed on Beijing, British diplomats appear poised to take up the suggestion of local experts that Britain, the existing sovereign power, declare Hong Kong a separate customs territory and then sponsor its membership of GATT.

But the Chinese members of the [word indistinct] may feel this to be an implicit infringement of China's sovereignty over Hong Kong.

HONG KONG

ANALYSTS PREDICT GOOD PROSPECTS FOR EXPORTS

HK260607 Hong Kong HONG KONG STANDARD (BUSINESS STANDARD supplement) in
English 26 Feb 86 p 1

[By Mike Marray]

[Text] Analysts yesterday expressed continued optimism about the prospects for Hong Kong's exports in 1986, despite provisional trade figures just released which show the value of domestic exports for January to have fallen by 6 percent on the same month last year.

The figures, published yesterday by the Census and Statistics Department, show domestic exports for January at \$10,530 million, a fall of \$636 million on last year.

However, the Director General of the Federation of Hong Kong Industries, Mr Lawrence Mills, was quick to downplay the significance of the results.

He said January was traditionally a slow month and that it would be April or May before any trend for the year could be established.

"January is something of a special month, as it gets very close to Chinese New Year and the old textile year has just finished. So these two things in combination exert an influence on the figures.

"People try to beat the quota and get their goods away at the end of the year. it is not until we get the March and April figures that we will be able to see a trend.

"The fall of the value of the dollar may make our exports more competitive but, at the same time, may make raw materials more expensive so the two factors may balance out.

"I don't see the currency fluctuations as having too much effect, though it could have a positive effect if Hong Kong manufacturers can identify cheaper sources of supply," Mr Mills said.

Mr. K. T. Yu, an analyst at Chi Tung Investment, also said that the results should not be seen as too worrying.

"January is always a slow month and it is not very significant to compare these figures month-on-month.

"I would expect the export trend would be up in the second half of the year," he forecast.

Other statistics showed that the value of re-exports also declined by 4 percent, or \$395 million, to \$8,563 million.

Thus, taking domestic exports and re-exports together, the value of total exports, at \$19,083 million, was 5 percent or \$1,031 million lower than a year earlier.

The value of imports was \$18,806 million, representing a decline of 2 percent or \$313 million over the same month last year.

As the value of total exports was greater than that of imports in January 1986, the visible trade account recorded a surplus of \$287 million, which was equivalent to 1.5 percent of the value of imports, compared with 5.3 percent in January 1985.

Commenting on these comparative figures, a government secretariat spokesman said that the decline in the value of domestic exports in January 1986, (compared with January 1985 and particularly with December 1985) was influenced by the rush shipment by manufacturers towards the end of last year.

This was to fulfill higher quota utilization rates for restrained textile items.

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HONG KONG

INCREASE IN TRANSIT TRADE DISCUSSED

Hong Kong JINGJI DAobao [ECONOMIC REPORTER] in Chinese No 36, 9 Sep 85 p 1

[Editorial: "Rapid Increase in Transit Trade Is Good"]

[Text] Since the beginning of this year, the most outstanding characteristic in Hong Kong's foreign trade is the rapid increase in transit trade and the remarkable increase in its proportion. The figures published by the Statistics Office last week indicated a 41.4-percent margin of increase in the volume of transit export for the first 6 months, compared to the corresponding period last year. The percentage of transit export in the total volume of export increased from 37.3 percent to 46.6 percent. However, because the rapid increase in transit export and the decrease in the export of Hong Kong products happened simultaneously, and because the margin of increase in transit trade involving China's hinterland was relatively wide, some people feel that the excessive speed of expansion of transit trade is not good, and express the concern that Hong Kong will regress 30 years to an era of relying primarily on transit trade.

We should admit that the abovementioned manifestation of Hong Kong's foreign trade for the first 6 months is not good enough. This is because we can no longer sustain last year's wide-margin increase for both the export of Hong Kong products and transit export. Furthermore, the quantity and value of the export of Hong Kong products which can bring about relatively great economic results have dropped. However, we must point out that we cannot hold the expansion of transit trade responsible for this situation. The lack of vigor in the export of Hong Kong products is primarily due to the impact of the slowing of the western economy and the intensification of protectionism, and not to the increase in transit trade. Also, the rapid expansion of transit trade has in fact brought about the following advantages to the Hong Kong economy: (1) Promoted the continuous development of trade as a whole (the margin of increase for the gross volume of export and import in Hong Kong for the first 6 months has increased by 13.2 percent and 6.8 percent respectively). (2) Improved trade revenue and expenditure (it is estimated that the surplus from transit trade is definitely higher than the gross trade surplus). (3) Provided the banking business with more opportunities for monetary investment (by the end of June, the loans for commodity trade not handled through Hong Kong has increased by 10.5 percent over the end of last year, giving a wider margin of increase over the total amount of loans of the

banking business). (4) Increased Hong Kong's transportation business (although the export of Hong Kong goods by sea transportation for the first 6 months has dropped, the total export and import volume has increased). (5) Increased Hong Kong's insurance earnings (the insurance fee for ocean shipping constitutes 0.3 percent of the price of the merchandise). In light of this situation, we can say that an important reason why Hong Kong's economy this year is still better than the other three "little dragons" in Asia is its thriving transit trade.

Statistics indicate that the value of goods sent to China's hinterland indirectly through Hong Kong in the first half of this year totaled 24,638,000,000 yuan, a 140-percent increase over the corresponding period last year. The value of goods sent from the hinterland indirectly through Hong Kong totaled 15,745,000,000 yuan, 18 percent more than the corresponding period of the preceding year. The percentage of transit volume to and from the hinterland through Hong Kong constituted 46.8 percent and 29.9 percent of the total volume of transit trade in Hong Kong respectively. These figures not only reflect the rapid increase in the transit trade of the hinterland and Hong Kong, but also the fact that the hinterland has become Hong Kong's most important partner in transit trade. We should point out that the strengthening of the relationship in transit trade between the hinterland and Hong Kong is beneficial to both parties. Through transit trade via Hong Kong, the hinterland can utilize the position of Hong Kong as an international trade center. This will include utilizing Hong Kong's sea and air transport facilities, utilizing Hong Kong's quick access to information, and utilizing the rich trade experience and widespread overseas trade relationships of the Hong Kong businessmen, which are all advantages to developing a world market for China's commodities and to more effectively importing the necessary products. For Hong Kong, in addition to the profits from transit trade operations, this relationship will enhance Hong Kong's economic stability. Thus, we can see that the strengthening of the relationship in transit trade between Hong Kong and the hinterland not only will increase Hong Kong's foreign trade dependence on China, but also will not affect the interests of other countries. Thus, the continuous development of this relationship is no cause for worry.

With the continuous implementation of the policy of opening to the outside world, the foreign trade in China's hinterland will definitely continue to develop. However, since the foreign trade infrastructure in the hinterland is still inadequate, and the inability in other areas to adapt to international trade will not change completely within a short period of time, the importance of transit trade via Hong Kong will continue. The current problem is, will the escalation of the importance of transit trade put Hong Kong's economy back to the 1950's-style dependence on transit trade for economic survival? If so, then there is indeed cause for worry, because it signifies the fact that some 30 years' effort to change a unitary economy to a pluralistic economic structure has been in vain. However, it seems that the possibility of this occurrence is small. This is because the position of transit trade is not necessarily consolidated by lowering the development of other undertakings, and especially not improved by sacrificing other undertakings. It can be expanded along with other undertakings. Even if the expansion of transit trade was faster than that of other undertakings, it still might not be a bad

thing. This is because, as a service trade, the increase in value of the trading business is still relatively high in terms of the average number of persons employed. In addition, the further development of transit trade and the improvement of the position as a trade center are consistent with the objective conditions of Hong Kong's lack of natural resources but presence of a superior harbor as well as geographical location.

Hong Kong's transit trade will develop to a new stage. This is an exciting event. However, if we could strive for the synchronous growth in the export of Hong Kong products as well as further expand and spread out our scope of service, the results will be even more ideal. But of course, we must continue to work hard and conscientiously in this respect.

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CSO: 4006/962

HONG KONG

AGREEMENT ON CITIC TAKEOVER OF KA WAH BANK SAID APPROVED

HK250535 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 25 Feb 86 p 1

[Text] Beijing authorities are said to have approved a draft agreement on the takeover of Ka Wah Bank by the China International Trust and Investment Corp [CITIC].

But the consent is said to be subject to certain conditions, sources close to the deal said.

One of the conditions is believed to be that the Hong Kong Government should guarantee the recovery of Ka Wah's doubtful loans.

However, government officials offered no comment on the subject.

Secretary for Monetary Affairs David Nendick said he could not comment on details of the negotiations between CITIC and Ka Wah.

He reiterated that an agreement on the takeover scheme will be signed in due course after a number of formalities are completed.

Some bankers said foreign banks with exposure to Ka Wah are still nervous over the bank's position in the absence of a firm legal commitment by CITIC to take over the bank.

They said the longer the negotiations take, the worse it is for Ka Wah because foreign banks lending to it may have to cut their credit lines or reassess the terms of the facilities provided their head offices find no progress in the takeover plan.

Foreign banks' actions may also have repercussions on other small local banks in the interbank market.

Therefore, the regulatory authorities are keen to see the deal finalized as soon as possible.

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